

Indiana Public Retirement System



2014 COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2014

Financial Section

| | |
|----|--------------------------------------|
| 26 | Independent Auditor's Report |
| 28 | Management's Discussion and Analysis |

Financial Statements

| | |
|----|--|
| 38 | Statement of Fiduciary Net Position |
| 40 | Statement of Changes in Fiduciary Net Position |
| 42 | Notes to the Financial Statements |

Required Supplementary Information

| | |
|-----|--|
| 92 | Schedule of Changes in Net Pension Liability and Net Pension Liability |
| 100 | Schedule of Contributions |
| 102 | Schedule of Investment Returns |
| 103 | Schedule of Notes to Required Supplementary Information |

Other Supplementary Schedules

| | |
|-----|---|
| 104 | Schedule of Pension Relief Changes in Assets and Liabilities |
| 105 | Schedule of Administrative and Project Expenses |
| 106 | Schedule of Administrative Contractual and Professional Services Expenses |
| 107 | Schedule of Project Expenses |
| 108 | Schedule of Project Contractual and Professional Services Expenses |
| 109 | Schedule of Investment Expenses |

Independent Auditor's Report



Independent Auditor's Report

Board of Trustees
Indiana Public Retirement System

Report on the Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position of the Indiana Public Retirement System (System), a component unit of the State of Indiana, as of and for the year ended June 30, 2014, and the related Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Indiana Public Retirement System as of June 30, 2014, and the changes in fiduciary net position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 of the financial statements, in 2014, the System adopted Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*. Our opinion is not modified with respect to this matter.

Other Matters

Prior-Year Comparative Information:

The financial statements of the System, as of and for the year ended June 30, 2013, were audited by other auditors whose report dated November 20, 2013 expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Independent Auditor's Report, continued

Required Supplementary Information:

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 28 through 37 and the schedules of changes in net position liability and net pension liability, contributions, and investment returns on pages 92 through 103 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information:

Our audit for the year ended June 30, 2014 was conducted for the purpose of forming an opinion on the System's financial statements. The other supplementary information consisting of Supporting Schedules in the financial section, and the accompanying introductory, investment, actuarial, and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements.

The other supplementary information for the year ended June 30, 2014 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements for the year ended June 30, 2014 and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects, in relation to the financial statements as a whole for the year ended June 30, 2014. The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

The System's basic financial statements for the year ended June 30, 2013 (not presented herein), were audited by other auditors whose report dated November 20, 2013 expressed an unmodified opinion on the basic financial statements. The report of the other auditors dated November 20, 2013, stated that the Schedule of Administrative and Project Expenses, Schedule of Administrative Contractual and Professional Services Expenses, Schedule of Project Expenses, Schedule of Project Contractual and Professional Services Expenses, and Schedule of Investment Expenses for the year ended June 30, 2013 was subjected to the auditing procedures applied in the audit of the 2013 basic financial statements and certain additional auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements or those basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and, in their opinion, was fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2013.

McGladrey LLP

Indianapolis, Indiana
December 17, 2014

Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) of the Indiana Public Retirement System (INPRS) provides a narrative summary of INPRS financial position and performance for fiscal year ended June 30, 2014, including highlights and comparative data. The MD&A is presented as required supplementary information to the financial statements of the INPRS Comprehensive Annual Financial Report (CAFR) and should be read in conjunction with the Letter of Transmittal included in the Introductory Section, and the Financial Statements, the Notes to the Financial Statements, Required Supplementary Information, and the Other Supplementary Schedules presented in the Financial Section.

INPRS is an independent instrumentality of the State of Indiana, administering nine (9) pension trust funds including eight (8) Defined Benefit retirement plans and one (1) Defined Contribution retirement plan, two (2) other postemployment benefit funds (Death Benefits), and one (1) agency fund. The following retirement plans and non-retirement funds are included in the INPRS financial statements. In this regard, refer to the Notes to the Financial Statements for descriptions of these retirement plans and non-retirement funds.

Defined Benefit Retirement Plans:

1. Public Employees' Retirement Fund (PERF)
2. Teachers' Retirement Fund Pre-1996 Account (TRF Pre-1996)
3. Teachers' Retirement Fund 1996 Account (TRF 1996)
4. 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund)
5. Judges' Retirement System (JRS)
6. State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan (EG&C Plan)
7. Prosecuting Attorneys' Retirement Fund (PARF)
8. Legislators' Retirement System – Legislators' Defined Benefit Plan (LEDB Plan)

Defined Contribution Retirement Plan:

1. Legislators' Retirement System – Legislators' Defined Contribution Plan (LEDC Plan)

Other Postemployment Benefit Funds:

1. State Employees' (SE) Death Benefit Fund
2. Public Safety Officers' (PSO) Special Death Benefit Fund

Agency Fund:

1. Pension Relief Fund (PR Fund)

Financial Highlights

- Total net position of INPRS was \$30,197 million as of June 30, 2014, which is restricted for future pension and death benefit payments.

Management's Discussion and Analysis, continued

- Total net position of INPRS increased by \$3,149 million, or 11.6 percent, during fiscal year 2014. The increase in net position from fiscal year 2013 to fiscal year 2014 was primarily due to net investment income of \$3,434 million. Contributions of \$2,063 million and other additions of \$16 million were offset with benefit payments/other deductions of \$2,363 million.
- INPRS contributions primarily from employers, members, and non-employer contributing entities decreased to \$2,063 million during fiscal year 2014, or by \$201 million (8.9 percent), from contributions of \$2,264 million during fiscal year 2013. The major reason for this decrease was due to the State appropriating an additional \$329 million from State excess reserves in accordance with 2012 HB 1376 in fiscal year 2013.
- For fiscal year 2014 INPRS time-weighted rate of return was 12.7 percent based on a market value of \$3,434 million, compared to a time-weighted rate of return of 6.0 percent based on a market value of \$1,514 million for fiscal year 2013. The money-weighted rate of return for fiscal year 2014 was 12.7 percent compared to a money-weighted rate of return in fiscal year 2013 of 5.6 percent.
- INPRS paid \$2,304 million in pension and disability benefits, special death benefits, and distributions of contributions and interest during fiscal year 2014. This represented an increase of \$73 million, or 3.3 percent, from the \$2,231 million paid during fiscal year 2013.
- INPRS membership was 450,184 as of June 30, 2014. There were 222,497 active members, 133,128 benefit recipients, 30,722 terminated vested members, and 63,837 terminated non-vested members. As of June 30, 2014, the date of the most recent actuarial valuation, the aggregate INPRS (excluding the TRF Pre-1996 Pay-As-You-Go plan) market value of assets funded ratio was 90.2 percent. This represents an increase of 6.1 percentage points from the 84.1 percent market value of assets funded ratio as of June 30, 2013. The increase was mostly due to the very strong investment return in fiscal year 2014.

Overview of the Financial Statements

The Financial Section is comprised of four (4) components: (1) Financial Statements, (2) Notes to the Financial Statements, (3) Required Supplementary Information, and (4) Other Supplementary Schedules. The information available in each of these sections is briefly summarized as follows:

1. Financial Statements

The Statement of Fiduciary Net Position is a point-in-time snapshot of the INPRS assets and liabilities at fiscal year end June 30, 2014 and 2013. It reports the net position (assets less liabilities equals net position) restricted for pension benefits, death benefits and pool participants. This statement reflects INPRS investments, at fair value, along with cash, receivables, and other assets and liabilities at June 30, 2014 and 2013.

The Statement of Changes in Fiduciary Net Position displays the effect of financial transactions that occurred during fiscal year 2014, where additions less deductions equal net increase (or net decrease) in net position. Additions come primarily from contributions by employers, members, and non-employer contributing entities which include State appropriations, lottery proceeds and taxes, as well as net investment income resulting from investing and securities lending activities during the period. Deductions are pension, disability and death benefit distributions, administrative and project expenses, and other deductions. This increase (or decrease) in net position reflects the change in the value of Fiduciary Net Position that occurred between June 30, 2014 and 2013.

Management's Discussion and Analysis, continued

2. Notes to the Financial Statements

The Notes to the Financial Statements are an integral part of the financial statements and provide additional detailed information that is essential for a full understanding of the data provided in the INPRS financial statements.

Note 1. – provides a general description of the retirement plans and non-retirement funds administered by INPRS. Information regarding membership, member, employer and nonemployer contributing entity contributions, retirement benefits, and disability and survivor benefits for each of the retirement plans is also provided.

Note 2. – provides a summary of significant accounting policies, including the basis of accounting, investment accounting policies, management's use of estimates, and other significant accounting policies.

Note 3. – provides information on cash and investments.

Note 4. – provides information on derivative financial instruments.

Note 5. – provides information on long-term commitments for alternative investments.

Note 6. – provides information on risk management.

Note 7. – provides information on contingent liabilities.

Note 8. – provides information on the net pension liability, funded status and other actuarial information for each of the defined benefit retirement plans.

Note 9. – provides information on subsequent events to fiscal year-end 2014.

Note 10. – summarizes the Required Supplementary Information and Other Supplementary Schedules.

3. Required Supplementary Information

Because of the long-term nature of public defined benefit pension plans, financial statements for the past fiscal year alone cannot provide sufficient information to properly reflect the plan fiduciary net position as a percent of the total pension liability of the plans. Therefore, in addition to the basic financial statements, three (3) required schedules of historical trend information related to the defined benefit plans are presented as Required Supplementary Information (RSI) in the INPRS CAFR Financial Section. The three (3) RSI schedules consist of the Schedule of Changes in Net Pension Liability and Net Pension Liability, the Schedule of Contributions, and the Schedule of Investment Returns. These three (3) schedules give historical trend information which is designed to provide decision-usefulness of the financial reports, improved value for assessing accountability and greater transparency related to measures of net pension liabilities impacting INPRS.

4. Other Supplementary Schedules

The Other Supplementary Schedules consist of a Schedule of Pension Relief Changes in Assets and Liabilities, Schedule of Administrative and Project Expenses, Schedule of Administrative Contractual and Professional Services Expenses, Schedule of Project Expenses, Schedule of Project Contractual and Professional Services Expenses, and Schedule of Investment Expenses.

Management's Discussion and Analysis, continued

Financial Analysis

Statement of Fiduciary Net Position

As shown in the table below, the total net position for INPRS was \$30,197 million as of June 30, 2014, which represents an increase of \$3,149 million, or 11.6 percent, compared to total net position of \$27,048 million as of June 30, 2013.

| Net Position (dollars in thousands) | | | | |
|--|----------------------|----------------------|--------------------------|----------------------|
| | June 30, 2014 | June 30, 2013 | Increase / (Decrease) | Percentage Change |
| Assets | | | | |
| Cash | \$ 15,001 | \$ 11,295 | \$ 3,706 | 32.8 % |
| Receivables | 4,611,123 | 2,526,780 | 2,084,343 | 82.5 |
| Investments | 32,698,227 | 28,798,529 | 3,899,698 | 13.5 |
| Net Capitalized and Other Assets | 9,611 | 12,458 | (2,847) | (22.9) |
| Total Assets | \$ 37,333,962 | \$ 31,349,062 | \$ 5,984,900 | 19.1 % |
| Liabilities | | | | |
| Investments Payable | \$ 7,010,833 | \$ 4,161,023 | \$ 2,849,810 | 68.5 % |
| All Other Liabilities | 125,977 | 140,012 | (14,035) | (10.0) |
| Total Liabilities | \$ 7,136,810 | \$ 4,301,035 | \$ 2,835,775 | 65.9 % |
| Total Net Position | \$ 30,197,152 | \$ 27,048,027 | \$ 3,149,125 | 11.6 % |

- Total assets of INPRS were \$37,334 million as of June 30, 2014, compared to \$31,349 million as of June 30, 2013, which represents an increase in total assets of \$5,985 million, or 19.1 percent. The primary reasons for this increase are as follows:
 - Cash increased by \$4 million, or 32.8 percent, as cash from contributions was received late in the month, which prevented a transfer to investments.
 - Receivables increased by \$2,084 million, or 82.5 percent, primarily due to an increase in the foreign currency futures contracts receivable of \$2,010 million. The increase was driven by hiring additional managers that are using foreign currency forwards to hedge foreign currency exposure.
 - Investments increased by \$3,900 million, or 13.5 percent, driven primarily by the positive time-weighted rate of return of 12.7 percent. The money-weighted rate of return on investments was 12.7 percent for fiscal year 2014. Of the \$3,900 million increase, alternative investments increased by \$1,331 million (17.1 percent), securities lending increased by \$1,088 million (100.7 percent), equities increased by \$971 million (14.5 percent), fixed income investments increased by \$752 million (6.5 percent), short-term investments decreased by \$202 million (13.2 percent), repurchase agreements decreased by \$29 million (100.0 percent), and derivatives decreased by \$11 million (29.3 percent).
 - Net Capitalized and Other Assets decreased by \$2.8 million, or 22.9 percent, due to the amortization of software costs related to the modernization projects.

Management's Discussion and Analysis, continued

- Total liabilities of INPRS were \$7,137 million as of June 30, 2014, compared to \$4,301 million as of June 30, 2013, which represents an increase in total liabilities of \$2,836 million, or 65.9 percent. The primary reasons for the increase are as follows:
 - Investments Payable including Securities Lending Obligations, Foreign Exchange Contracts Payable and Obligations Under Reverse Repurchase Agreement increased by \$2,850 million, or 68.5 percent, due to the timing of transactions at the end of fiscal year 2014 and an increase related to Foreign Exchange Contracts. This increase in Foreign Exchange Contracts was driven by hiring additional managers that are using foreign currency forwards to hedge foreign currency exposure.
 - All Other Liabilities decreased by \$14 million, or 10.0 percent, primarily due to a decrease in Due to Other Governments relating to the net change in the Pension Relief Fund.

A summary of net position by fund compared to the prior fiscal year is as follows:

Summary of Net Position by Fund (dollars in thousands)

| | June 30, 2014 | June 30, 2013 | Increase / (Decrease) | Percentage Change |
|--------------------------------|----------------------|----------------------|--------------------------|----------------------|
| PERF | \$ 14,104,288 | \$ 12,720,601 | \$ 1,383,687 | 10.9% |
| TRF Pre-1996 | 5,501,867 | 5,215,202 | 286,665 | 5.5 |
| TRF 1996 | 5,189,442 | 4,433,677 | 755,765 | 17.0 |
| 1977 Fund | 4,757,978 | 4,116,861 | 641,117 | 15.6 |
| JRS | 432,730 | 375,752 | 56,978 | 15.2 |
| EG&C Plan | 110,657 | 97,019 | 13,638 | 14.1 |
| PARF | 54,507 | 47,920 | 6,587 | 13.7 |
| LEDB Plan | 3,489 | 3,337 | 152 | 4.6 |
| LEDC Plan | 29,103 | 25,322 | 3,781 | 14.9 |
| SE Death Benefit Fund | 7,917 | 7,683 | 234 | 3.0 |
| PSO Special Death Benefit Fund | 5,174 | 4,653 | 521 | 11.2 |
| Total Net Position | \$ 30,197,152 | \$ 27,048,027 | \$ 3,149,125 | 11.6% |

Liquidity

The System's defined benefit liquidity needs are met through employer, nonemployer contributing entity and other contributions, earnings from investments, and the well diversified portfolio of INPRS. On June 30, 2014, INPRS held over \$4.5 billion in Money Market Sweep Vehicles and U.S. Government and Agency Securities. INPRS also held approximately \$1.5 billion in highly liquid, Large-Cap Domestic Equities. Because of their characteristics, investments in Asset-Backed Securities, Commingled Funds, Corporate Bonds, Non U.S. Governments, other Domestic Equities, International Equities, and Risk Parity are not considered a primary source of liquidity. Investments in Private Equity, Absolute Return, and Private Real Estate are generally considered illiquid.

Statement of Changes in Fiduciary Net Position

As shown in the table below, the total net position for INPRS increased by \$3,149 million, or 11.6 percent, for fiscal year 2014, compared to a total net position increase of \$1,502 million, or 5.9 percent as of June 30, 2013.

A summary of changes in net position during the fiscal years ended June 30, 2014 and June 30, 2013, is presented below:

Management's Discussion and Analysis, continued

Changes in Net Position (dollars in thousands)

| | June 30, 2014 | June 30, 2013 | Increase / (Decrease) | Percentage Change |
|--|---------------------|---------------------|--------------------------|----------------------|
| Additions | | | | |
| Member Contributions | \$ 341,609 | \$ 326,518 | \$ 15,091 | 4.6% |
| Employer Contributions | 894,851 | 933,719 | (38,868) | (4.2) |
| Nonemployer Contributing Entity | 826,142 | 1,004,140 | (177,998) | (17.7) |
| Net Investment Income | 3,434,051 | 1,514,240 | 1,919,811 | 126.8 |
| Other Additions | 15,754 | 14,865 | 889 | 6.0 |
| Total Additions | \$ 5,512,407 | \$ 3,793,482 | \$ 1,718,925 | 45.3 % |
| Deductions | | | | |
| Benefits – Pension, Disability, Death | \$ 2,216,926 | \$ 2,132,133 | \$ 84,793 | 4.0 % |
| Distributions of Contributions and Interest | 87,375 | 98,414 | (11,039) | (11.2) |
| Administrative Expenses | 34,544 | 32,149 | 2,395 | 7.4 |
| Project Expenses | 8,855 | 13,715 | (4,860) | (35.4) |
| Other Deductions | 15,582 | 14,759 | 823 | 5.6 |
| Total Deductions | \$ 2,363,282 | \$ 2,291,170 | \$ 72,112 | 3.1 % |
| Net Increase / (Decrease) in Net Position | \$ 3,149,125 | \$ 1,502,312 | \$ 1,646,813 | 109.6 % |

Additions

Additions to the net position of INPRS needed to finance retirement benefits are accumulated primarily through contributions and investment income. Total additions for INPRS were \$5,512 million for fiscal year 2014, compared to \$3,793 million for fiscal year 2013, which represents an increase in total additions of \$1,719 million, or 45.3 percent. The primary reasons for the increase are as follows:

- Member Contributions increased by \$15 million, or 4.6 percent. The primary reason for this increase was due to a higher wage base.
- Employer Contributions decreased by \$39 million, or 4.2 percent. The primary reason for this decrease was due to the State appropriating an additional \$122 million from State excess reserves in accordance with 2012 HB 1376 in 2013. In addition, contributions due to employer rate increases and other service purchases increased by \$83 million.
- Nonemployer Contributing Entity decreased by \$178 million, or 17.7 percent due to the State appropriating an additional \$207 million from State excess reserves in accordance with 2012 HB 1376 in 2013 to the Teachers' Retirement Fund Pre-1996 Account.
- Net Investment Income increased by \$1,920 million, or 127 percent, driven by a 12.7 percent time-weighted rate of return in fiscal year 2014, compared to a 6.0 percent time-weighted rate of return for fiscal year 2013. The money-weighted rate of return was 12.7 percent, compared to fiscal year 2013 rate of return of 5.6 percent.
- Other Additions increased by \$0.9 million, or 6.0 percent, due to an increase in member reassignments which by their nature, can fluctuate significantly from year to year.

Management's Discussion and Analysis, continued

Deductions

Benefit payments, distributions of contributions and interest to members who terminate employment, administrative expenses and project expenses primarily comprise the INPRS expenses, or deductions from net position. Total deductions for INPRS were \$2,363 million for fiscal year 2014, compared to \$2,291 million for fiscal year 2013, which represents an increase in total deductions of \$72 million, or 3.1 percent. The primary reasons for the increase are as follows:

- **Pension, Disability and Death Benefits** increased by \$85 million, or 4.0 percent, due to an increase in the number of retirees.
- **Distribution of Contributions and Interest** decreased by \$11 million, or 11.2 percent, as a result of fewer inactive members withdrawing their funds.
- **Administrative Expenses** increased by \$2.4 million or 7.4 percent, primarily due to higher Data Processing and increased Amortization Expense because modernization was completed in fiscal year 2014.
- **Project Expenses** decreased by \$4.9 million, or 35.4 percent, primarily because modernization was completed with the final system going live in fiscal year 2014.
- **Other Deductions** increased by \$0.8 million, or 5.6 percent, due to higher member reassignments which, by their nature, can fluctuate significantly from year to year.

Consolidated Defined Benefit Asset Allocation and Rate of Return on Investments

In October 2011, the INPRS Board of Trustees adopted a new Investment Policy Statement effective January 1, 2012. This new strategic asset allocation is for the Consolidated Defined Benefit Assets. Substantially all of the investments for the retirement plans administered by INPRS are pooled in the Consolidated Defined Benefit Retirement Assets. The following table presents the INPRS Consolidated Defined Benefit Assets investment allocation as of June 30, 2014, compared to the INPRS current target investment allocation and actual allocation as of June 30, 2013.

Consolidated Defined Benefit Asset Allocation

| | June 30, 2014 Actual | June 30, 2014 Target | June 30, 2013 Actual | Allowable Range For Investments ¹ |
|------------------------------------|-------------------------|-------------------------|-------------------------|---|
| Public Equity | 23.6% | 22.5% | 24.2% | 20.0% to 25.0% |
| Private Equity | 12.7 | 10.0 | 13.0 | 7.0% to 13.0% |
| Fixed Income - Ex Inflation-Linked | 22.2 | 22.0 | 22.0 | 19.0% to 25.0% |
| Fixed Income - Inflation-Linked | 9.4 | 10.0 | 10.0 | 7.0% to 13.0% |
| Commodities | 7.8 | 8.0 | 7.3 | 6.0% to 10.0% |
| Real Estate | 5.4 | 7.5 | 5.3 | 4.0% to 11.0% |
| Absolute Return | 8.7 | 10.0 | 8.6 | 6.0% to 14.0% |
| Risk Parity | 10.2 | 10.0 | 9.6 | 5.0% to 15.0% |
| Total | 100.0% | 100.0% | 100.0% | |

¹See Notes to the Financial Statements, Note 3, for additional information.

The Consolidated Defined Benefit Assets (i.e., INPRS-controlled asset allocation) time-weighted rate of return on investments was positive 13.7 percent for fiscal year 2014, compared to the 6.75 percent actuarial-assumed long-term rate of return. The fiscal year 2014 time-weighted rate of return of 13.7 percent was 7.7 percentage points higher than fiscal year 2013 time-weighted rate of return of 6.0 percent. The following provides a brief summary of the rate of return for each asset class for fiscal year 2014,

Management's Discussion and Analysis, continued

compared to the respective benchmark for each asset class. The Investment Section provides additional information for the INPRS investments.

- **Public Equity**, which seeks to provide long-term capital appreciation and income through exposure to public equity securities, had a return on investment of positive 22.5 percent for fiscal year 2014. This return compared (0.9) percentage points unfavorable to the benchmark of positive 23.4 percent for the MSCI All Country World IMI Index.
- **Private Equity**, which seeks to provide risk-adjusted returns in excess of the public equity markets while simultaneously decreasing the volatility of the INPRS investment portfolio through diversification, had a return on investment of positive 19.6 percent for fiscal year 2014. This return compared (8.6) percentage points unfavorable to the benchmark of positive 28.2 percent for the Russell 3000 Index plus 300 basis points.
- **Fixed Income – Ex Inflation-Linked**, which seeks to generate current income and long-term risk-adjusted returns through investments in debt securities, had a return on investment of positive 7.1 percent for fiscal year 2014. This return was 1.9 percentage points favorable to the benchmark of positive 5.2 percent for Global Inflation 70/30.
- **Fixed Income – Inflation-Linked**, or Treasury Inflation Protected Securities (TIPS), which seeks to generate long-term risk-adjusted returns through investments in inflation-linked securities and to provide protection against unanticipated inflation, had a return on investment of positive 5.4 percent for fiscal year 2014. This return compared 0.7 percentage points favorable to the benchmark of positive 4.7 percent for the Barclays Capital Global Inflation-Linked Bond Index.
- **Commodities**, which seek to enhance long-term risk-adjusted returns by preserving investment capital, lowering overall volatility, and providing a hedge against unanticipated inflation, had a return on investment of positive 12.8 percent for fiscal year 2014. This return compared 0.9 percentage points favorable to the benchmark of positive 11.9 percent for a 50/50 blend of the Dow Jones UBS Commodity Index and the Goldman Sachs Commodity Index.
- **Real Estate**, which seeks to generate attractive risk-adjusted returns by providing stable current income, preserving investment capital, and reducing volatility by providing a hedge against unanticipated inflation, had a return on investment of positive 10.2 percent for fiscal year 2014. This return compared (2.5) percentage points unfavorable to the benchmark of positive 12.7 percent for the NCREIF Open End Diversified Core Equity Index.
- **Absolute Return**, which seeks to enhance the long-term risk-adjusted returns by providing diversification benefits, while preserving capital and reducing volatility, had a return on investment of positive 10.3 percent for fiscal year 2014. This return compared 3.9 percentage points favorable to the benchmark of positive 6.4 percent for the HFRI Fund of Funds Composite Index.
- **Risk Parity**, which seeks to create risk-balance that, is capable of delivering consistent and high risk-adjusted returns in several macro-economic environments, had a return on investment of positive 16.7 percent for fiscal year 2014. This return compared 0.8 percentage points favorable to the benchmark of positive 15.9 percent for the blended benchmark of the MSCI ACWI IMI Index (equities – 60 percent) and Barclays Global Aggregate Bond Index (40 percent).

Actuarial Valuations and Funding Progress

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to members. A pension fund is fully funded when it has enough money in reserve to meet all expected future obligations to participants. The goal for the defined benefit retirement plans is to make progress toward achieving full funding.

Management's Discussion and Analysis, continued

With the implementation of GASB Statement No. 67, the Actuarial Value of Assets (AVA) is no longer to be used for financial reporting purposes. The Market Value of Assets (MVA) is required for financial reporting purposes; however, the Actuarial Value of Assets will continue to be used for funding purposes as presented in the Actuarial Section.

The market value funded ratios of the defined benefit pension plans administered by INPRS as of the latest actuarial valuations were as follows:

| Historical Trends | | |
|---|---------------|---------------|
| | June 30, 2014 | June 30, 2013 |
| Pre-Funded Defined Benefit Pension Trust Funds | | |
| PERF | 84.3% | 78.8% |
| TRF 1996 Account | 99.1 | 93.4 |
| 1977 Fund | 101.1 | 93.7 |
| JRS | 93.1 | 82.9 |
| EG&C Plan | 89.5 | 82.2 |
| PARF | 83.4 | 77.4 |
| LEDB Plan | 83.7 | 77.9 |
| Pay-As-You-Go Defined Benefit Pension Trust Fund | | |
| TRF Pre-1996 Account ¹ | 33.6% | 31.7% |

An analysis of the funding progress, contributions and a discussion of actuarial assumptions and methods is set forth in Note 8 and in the Required Supplementary Information of the Financial Section. For additional actuarial-related information on a funding basis, refer to the Actuarial Section of the CAFR.

Indiana Public Retirement System



Statement of Fiduciary Net Position

As of June 30, 2014 (with Comparative Totals for the Year Ended June 30, 2013)¹

(dollars in thousands)

Pension Trust Funds

| | Public Employees' Retirement Fund | Teachers' Retirement Fund Pre-1996 Account | Teachers' Retirement Fund 1996 Account | 1977 Police Officers' and Firefighters' Pension and Disability Fund | Judges' Retirement System | State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan | Prosecuting Attorneys' Retirement Fund | Legislators' Defined Benefit Plan | Legislators' Defined Contribution Plan |
|--|--|--|--|--|---------------------------------|--|---|---|---|
| Assets | | | | | | | | | |
| Cash | \$ 6,303 | \$ 450 | \$ 1,958 | \$ 1,332 | \$ 3,597 | \$ 8 | \$ - | \$ - | \$ 4 |
| Receivables: | | | | | | | | | |
| Contributions Receivable | 4,284 | 84 | 1,967 | 2,311 | - | - | - | - | - |
| Miscellaneous Receivables | 2,411 | 81 | 293 | 101 | 67 | - | 93 | - | 889 |
| Investments Receivable | 217,921 | 83,743 | 81,479 | 82,477 | 7,442 | 1,922 | 944 | 61 | 489 |
| Foreign Exchange Contracts Receivable | 1,842,979 | 648,324 | 672,206 | 765,324 | 69,049 | 17,836 | 8,758 | 562 | 2,161 |
| Interest and Dividends | 41,097 | 16,089 | 14,929 | 13,626 | 1,229 | 318 | 156 | 10 | 63 |
| Due From Other Funds | 5,022 | 910 | 1,231 | - | - | - | - | - | - |
| Total Receivables | 2,113,714 | 749,231 | 772,105 | 863,839 | 77,787 | 20,076 | 9,951 | 633 | 3,602 |
| Investments: | | | | | | | | | |
| Short Term Investments | 12,768 | 24,314 | 2,184 | - | - | - | - | - | 33 |
| Pooled Unit Trust Assets: | | | | | | | | | |
| Repurchase Agreements | - | - | - | - | - | - | - | - | - |
| Short Term Investments | 587,919 | 215,687 | 214,805 | 227,581 | 20,533 | 5,304 | 2,604 | 167 | 826 |
| Fixed Income | 5,962,143 | 2,401,241 | 2,113,034 | 1,681,194 | 151,680 | 39,180 | 19,238 | 1,234 | 6,207 |
| Equities | 3,436,676 | 1,559,370 | 1,379,779 | 1,114,954 | 100,593 | 25,984 | 12,758 | 819 | 17,632 |
| Alternative Investments | 4,186,657 | 1,438,578 | 1,514,698 | 1,769,015 | 159,574 | 41,219 | 20,239 | 1,299 | 3,581 |
| Derivatives | 12,376 | 4,449 | 4,549 | 5,054 | 456 | 118 | 58 | 4 | 18 |
| Securities Lending Collateral | 992,239 | 340,947 | 358,988 | 419,261 | 37,826 | 9,771 | 4,798 | 308 | 849 |
| Total Investments | 15,190,778 | 5,984,586 | 5,588,037 | 5,217,059 | 470,662 | 121,576 | 59,695 | 3,831 | 29,146 |
| Other Assets | 408 | - | - | - | - | - | - | - | - |
| Gross Capitalized Assets | 13,550 | 2,583 | 2,382 | 579 | 23 | 21 | 17 | 1 | 3 |
| Less: Accumulated Depreciation and Amortization | (6,919) | (1,398) | (1,303) | (301) | (12) | (11) | (9) | (1) | (2) |
| Net Capitalized Assets | 6,631 | 1,185 | 1,079 | 278 | 11 | 10 | 8 | - | 1 |
| Total Assets | 17,317,834 | 6,735,452 | 6,363,179 | 6,082,508 | 552,057 | 141,670 | 69,654 | 4,464 | 32,753 |
| Liabilities | | | | | | | | | |
| Accounts Payable | \$ 3,731 | \$ 564 | \$ 610 | \$ 39 | \$ 4 | \$ 1 | \$ 1 | \$ 1 | \$ - |
| Retirement Benefits Payable | 447 | 84,654 | 6,473 | 1,706 | - | 176 | - | - | - |
| Salaries and Benefits Payable | 3,236 | - | - | - | - | - | - | - | - |
| Investments Payable | 256,402 | 118,007 | 92,697 | 90,291 | 8,146 | 2,103 | 1,033 | 67 | 540 |
| Foreign Exchange Contracts Payable | 1,851,948 | 651,533 | 675,497 | 769,003 | 69,381 | 17,922 | 8,800 | 565 | 2,173 |
| Securities Lending Obligations | 992,239 | 340,947 | 358,988 | 419,261 | 37,826 | 9,771 | 4,798 | 308 | 849 |
| Obligations Under Reverse Repurchase Agreement | 103,402 | 35,530 | 37,411 | 43,691 | 3,942 | 1,018 | 500 | 32 | 88 |
| Due to Other Funds | 2,141 | 2,350 | 2,061 | 539 | 28 | 22 | 15 | 2 | - |
| Due to Other Governments | - | - | - | - | - | - | - | - | - |
| Total Liabilities | 3,213,546 | 1,233,585 | 1,173,737 | 1,324,530 | 119,327 | 31,013 | 15,147 | 975 | 3,650 |
| Total Net Position Restricted | \$ 14,104,288 | \$ 5,501,867 | \$ 5,189,442 | \$ 4,757,978 | \$ 432,730 | \$ 110,657 | \$ 54,507 | \$ 3,489 | \$ 29,103 |

¹The accompanying notes are an integral part of the financial statements.

Indiana Public Retirement System



Statement of Fiduciary Net Position, continued As of June 30, 2014 (with Comparative Totals for the Year Ended June 30, 2013)¹

| (dollars in thousands) | Other Postemployment Benefit Funds | | | | Agency Fund | | INPRS Totals | |
|--|--|---|--|--|---|---|----------------------|----------------------|
| | State Employees' Death Benefit Fund | Public Safety Officers' Special Death Benefit Fund | Pension Trust and Other Postemployment Benefit Funds 2014 Totals | Pension Trust and Other Postemployment Benefit Funds 2013 Totals | Pension Relief Fund 2014 Totals | Pension Relief Fund 2013 Totals | 2014 Totals | 2013 Totals |
| Assets | | | | | | | | |
| Cash | \$ - | \$ 106 | \$ 13,758 | \$ 10,241 | \$ 1,243 | \$ 1,054 | \$ 15,001 | \$ 11,295 |
| Receivables: | | | | | | | | |
| Contributions Receivable | - | - | 8,646 | 19,711 | - | - | 8,646 | 19,711 |
| Miscellaneous Receivables | - | - | 3,935 | 2,302 | - | - | 3,935 | 2,302 |
| Investments Receivable | 65 | 42 | 476,585 | 389,435 | - | - | 476,585 | 389,435 |
| Foreign Exchange Contracts Receivable | - | - | 4,027,199 | 2,017,071 | - | - | 4,027,199 | 2,017,071 |
| Interest and Dividends | 48 | 30 | 87,595 | 91,424 | - | - | 87,595 | 91,424 |
| Due From Other Funds | - | - | 7,163 | 6,837 | - | - | 7,163 | 6,837 |
| Total Receivables | 113 | 72 | 4,611,123 | 2,526,780 | - | - | 4,611,123 | 2,526,780 |
| Investments: | | | | | | | | |
| Short Term Investments | - | - | 39,299 | 65,261 | 15,933 | 35,587 | 55,232 | 100,848 |
| Pooled Unit Trust Assets: | | | | | | | | |
| Repurchase Agreements | - | - | - | 28,800 | - | - | - | 28,800 |
| Short Term Investments | 125 | 80 | 1,275,631 | 1,431,649 | - | - | 1,275,631 | 1,431,649 |
| Fixed Income | 7,752 | 4,962 | 12,387,865 | 11,636,389 | - | - | 12,387,865 | 11,636,389 |
| Equities | - | - | 7,648,565 | 6,678,067 | - | - | 7,648,565 | 6,678,067 |
| Alternative Investments | - | - | 9,134,860 | 7,803,938 | - | - | 9,134,860 | 7,803,938 |
| Derivatives | - | - | 27,082 | 38,291 | - | - | 27,082 | 38,291 |
| Securities Lending Collateral | 2,442 | 1,563 | 2,168,992 | 1,080,547 | - | - | 2,168,992 | 1,080,547 |
| Total Investments | 10,319 | 6,605 | 32,682,294 | 28,762,942 | 15,933 | 35,587 | 32,698,227 | 28,798,529 |
| Other Assets | - | - | 408 | 304 | - | - | 408 | 304 |
| Gross Capitalized Assets | - | - | 19,159 | 18,916 | 2 | 2 | 19,161 | 18,918 |
| Less: Accumulated Depreciation and Amortization | - | - | (9,956) | (6,762) | (2) | (2) | (9,958) | (6,764) |
| Net Capitalized Assets | - | - | 9,203 | 12,154 | - | - | 9,203 | 12,154 |
| Total Assets | 10,432 | 6,783 | 37,316,786 | 31,312,421 | 17,176 | 36,641 | 37,333,962 | 31,349,062 |
| Liabilities | | | | | | | | |
| Accounts Payable | - | - | 4,951 | 6,268 | 4 | 9 | 4,955 | 6,277 |
| Retirement Benefits Payable | - | - | 93,456 | 87,692 | - | - | 93,456 | 87,692 |
| Salaries and Benefits Payable | - | - | 3,236 | 2,589 | - | - | 3,236 | 2,589 |
| Investments Payable | 73 | 46 | 569,405 | 903,209 | - | - | 569,405 | 903,209 |
| Foreign Exchange Contracts Payable | - | - | 4,046,822 | 2,004,661 | - | - | 4,046,822 | 2,004,661 |
| Securities Lending Obligations | 2,442 | 1,563 | 2,168,992 | 1,080,547 | - | - | 2,168,992 | 1,080,547 |
| Obligations Under Reverse Repurchase Agreement | - | - | 225,614 | 172,606 | - | - | 225,614 | 172,606 |
| Due to Other Funds | - | - | 7,158 | 6,822 | 5 | 15 | 7,163 | 6,837 |
| Due to Other Governments | - | - | - | - | 17,167 | 36,617 | 17,167 | 36,617 |
| Total Liabilities | 2,515 | 1,609 | 7,119,634 | 4,264,394 | 17,176 | 36,641 | 7,136,810 | 4,301,035 |
| Total Net Position Restricted | \$ 7,917 | \$ 5,174 | \$ 30,197,152 | \$ 27,048,027 | \$ - | \$ - | \$ 30,197,152 | \$ 27,048,027 |

¹The accompanying notes are an integral part of the financial statements.

Indiana Public Retirement System



Statement of Changes in Fiduciary Net Position For the Year Ended June 30, 2014 (with Comparative Totals for the Year Ended June 30, 2013)¹

(dollars in thousands)

Pension Trust Funds

| | Public Employees' Retirement Fund | Teachers' Retirement Fund Pre-1996 Account | Teachers' Retirement Fund 1996 Account | 1977 Police Officers' and Firefighters' Pension and Disability Fund | Judges' Retirement System | State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan | Prosecuting Attorneys' Retirement Fund | Legislators' Defined Benefit Plan |
|---|-----------------------------------|--|--|---|---------------------------|---|--|-----------------------------------|
| Additions | | | | | | | | |
| Contributions: | | | | | | | | |
| Member Contributions | \$ 164,189 | \$ 47,028 | \$ 81,802 | \$ 41,791 | \$ 2,856 | \$ 1,019 | \$ 1,334 | \$ - |
| Employer Contributions | 526,090 | 6,325 | 194,751 | 140,119 | 20,895 | 5,359 | 1,174 | 138 |
| Nonemployer Contributing Entity | - | 825,617 | - | - | - | - | - | - |
| Total Contributions | 690,279 | 878,970 | 276,553 | 181,910 | 23,751 | 6,378 | 2,508 | 138 |
| Investment Income: | | | | | | | | |
| Net Appreciation/(Depreciation) Fair Value of Investments | 1,436,345 | 596,763 | 546,019 | 537,372 | 48,907 | 12,582 | 6,211 | 414 |
| Other Net Investment Income | 2,216 | 805 | 776 | 927 | 74 | 20 | 9 | 1 |
| Net Interest and Dividends Income | 200,751 | 81,046 | 69,918 | 64,591 | 5,876 | 1,514 | 746 | 50 |
| Securities Lending Income | 1,854 | 658 | 666 | 781 | 71 | 17 | 9 | 1 |
| Total Net Investment Income | 1,641,166 | 679,272 | 617,379 | 603,671 | 54,928 | 14,133 | 6,975 | 466 |
| Less Direct Investment Expenses: | | | | | | | | |
| Investment Management Fees | (79,042) | (29,214) | (28,179) | (32,215) | (2,930) | (754) | (371) | (26) |
| Securities Lending Fees | (256) | (91) | (92) | (108) | (10) | (4) | (1) | - |
| Direct Investment Expenses | (8,475) | (2,386) | (2,326) | (1,290) | (98) | (36) | (22) | (1) |
| Net Investment Income / (Loss) | 1,553,393 | 647,581 | 586,782 | 570,058 | 51,890 | 13,339 | 6,581 | 439 |
| Other Additions: | | | | | | | | |
| Miscellaneous Income | 52 | 19 | 21 | 30 | 6 | - | 4 | - |
| Member Reassignments | 3,444 | 3,250 | 8,884 | - | 4 | - | - | - |
| Total Other Additions | 3,496 | 3,269 | 8,905 | 30 | 10 | - | 4 | - |
| Total Additions | 2,247,168 | 1,529,820 | 872,240 | 751,998 | 75,651 | 19,717 | 9,093 | 577 |
| Deductions | | | | | | | | |
| Pension and Disability Benefits | 765,327 | 1,220,866 | 97,986 | 104,802 | 18,527 | 5,838 | 2,347 | 363 |
| Special Death Benefits | - | - | - | 720 | - | - | - | - |
| Distribution of Contributions and Interest | 63,031 | 8,435 | 10,734 | 3,572 | - | 100 | 51 | - |
| Administrative Expenses | 21,756 | 5,585 | 5,347 | 1,439 | 131 | 126 | 96 | 59 |
| Project Expenses | 5,677 | 1,425 | 1,360 | 348 | 15 | 15 | 12 | 3 |
| Member Reassignments | 7,690 | 6,844 | 1,048 | - | - | - | - | - |
| Total Deductions | 863,481 | 1,243,155 | 116,475 | 110,881 | 18,673 | 6,079 | 2,506 | 425 |
| Net Increase / (Decrease) | 1,383,687 | 286,665 | 755,765 | 641,117 | 56,978 | 13,638 | 6,587 | 152 |
| Beginning Net Position Restricted | 12,720,601 | 5,215,202 | 4,433,677 | 4,116,861 | 375,752 | 97,019 | 47,920 | 3,337 |
| Ending Net Position Restricted | \$ 14,104,288 | \$ 5,501,867 | \$ 5,189,442 | \$ 4,757,978 | \$ 432,730 | \$ 110,657 | \$ 54,507 | \$ 3,489 |

¹The accompanying notes are an integral part of the financial statements. Please see the Notes to the Financial Statements for further details.

²Please note that as the Pension Relief Fund is an Agency Fund, it is not included in the Statement of Changes in Fiduciary Net Position.

Indiana Public Retirement System



Statement of Changes in Fiduciary Net Position, continued For the Year Ended June 30, 2014 (with Comparative Totals for the Year Ended June 30, 2013)¹

| (dollars in thousands) | Pension Trust Funds | Other Postemployment Benefit Funds | | INPRS Totals ² | |
|--|--|--|--|--|--|
| | Legislators' Defined Contribution Plan | State Employees' Death Benefit Fund | Public Safety Officers' Special Death Benefit Fund | Pension Trust and Other Postemployment Benefit Funds 2014 Totals | Pension Trust and Other Postemployment Benefit Funds 2013 Totals |
| Additions | | | | | |
| Contributions: | | | | | |
| Member Contributions | \$ 1,590 | \$ - | \$ - | \$ 341,609 | \$ 326,518 |
| Employer Contributions | - | - | - | 894,851 | 933,719 |
| Nonemployer Contributing Entity | - | - | 525 | 826,142 | 1,004,140 |
| Total Contributions | 1,590 | - | 525 | 2,062,602 | 2,264,377 |
| Investment Income: | | | | | |
| Net Appreciation/(Depreciation) Fair Value of Investments | 3,465 | 59 | 38 | 3,188,175 | 1,229,146 |
| Other Net Investment Income | 2 | - | - | 4,830 | 4,719 |
| Net Interest and Dividends Income | 232 | 186 | 114 | 425,024 | 417,416 |
| Securities Lending Income | 2 | 3 | 2 | 4,064 | 5,870 |
| Total Net Investment Income | 3,701 | 248 | 154 | 3,622,093 | 1,657,151 |
| Less Direct Investment Expenses: | | | | | |
| Investment Management Fees | (84) | (13) | (7) | (172,835) | (127,093) |
| Securities Lending Fees | - | - | - | (562) | (879) |
| Direct Investment Expenses | (9) | (1) | (1) | (14,645) | (14,939) |
| Net Investment Income / (Loss) | 3,608 | 234 | 146 | 3,434,051 | 1,514,240 |
| Other Additions: | | | | | |
| Miscellaneous Income | 40 | - | - | 172 | 106 |
| Member Reassignments | - | - | - | 15,582 | 14,759 |
| Total Other Additions | 40 | - | - | 15,754 | 14,865 |
| Total Additions | 5,238 | 234 | 671 | 5,512,407 | 3,793,482 |
| Deductions | | | | | |
| Pension and Disability Benefits | - | - | - | 2,216,056 | 2,130,689 |
| Special Death Benefits | - | - | 150 | 870 | 1,444 |
| Distribution of Contributions and Interest | 1,452 | - | - | 87,375 | 98,414 |
| Administrative Expenses | 5 | - | - | 34,544 | 32,149 |
| Project Expenses | - | - | - | 8,855 | 13,715 |
| Member Reassignments | - | - | - | 15,582 | 14,759 |
| Total Deductions | 1,457 | - | 150 | 2,363,282 | 2,291,170 |
| Net Increase / (Decrease) | 3,781 | 234 | 521 | 3,149,125 | 1,502,312 |
| Beginning Net Position Restricted | 25,322 | 7,683 | 4,653 | 27,048,027 | 25,545,715 |
| Ending Net Position Restricted | \$ 29,103 | \$ 7,917 | \$ 5,174 | \$ 30,197,152 | \$ 27,048,027 |

¹The accompanying notes are an integral part of the financial statements. Please see the Notes to the Financial Statements for further details.

²Please note that as the Pension Relief Fund is an Agency Fund, it is not included in the Statement of Changes in Fiduciary Net Position.

Note 1. Descriptions of System and Plans

Administration of System and Plans

The Indiana Public Retirement System (INPRS) administers nine (9) pension trust funds including eight (8) Defined Benefit retirement plans and one (1) Defined Contribution retirement plan, two (2) Other Postemployment Benefit funds and one (1) Agency fund. INPRS is governed by a nine-member Board of Trustees, appointed by the Governor pursuant to the following criteria: one (1) trustee with experience in economics, finance, or investments, one (1) trustee with experience in executive management of benefits administration, one (1) trustee who is an active or retired member of the 1977 Fund, two (2) trustees who are TRF members with at least 10 years of creditable service, one (1) trustee who is a PERF member with at least 10 years of creditable service, Director of the State Budget Agency, or designee, Auditor of State, or nominee, and Treasurer of State, or nominee.

(A) Public Employees' Retirement Fund

Plan Description

The Public Employees' Retirement Fund (PERF) as part of the implementation of GASB Statement No. 67 changed from an agent to a cost-sharing, multiple-employer defined benefit plan effective July 1, 2013 based on 35 IAC 21-1-1, 35 IAC 21-1-2 and amended IC 5-10.2-2-11(b). PERF was established to provide retirement, disability, and survivor benefits to full-time employees of the State of Indiana not covered by another plan, those political subdivisions that elect to participate in the retirement plan, and certain INPRS employees. Political subdivisions mean a county, city, town, township, political body corporate, public school corporation, public library, public utility of a county, city, town, township, and any department of, or associated with, a county, city, town, or township, which department receives revenue independently of, or in addition to, funds obtained from taxation. There are two (2) tiers to the PERF Plan. The first is the Public Employees' Defined Benefit Plan (PERF Hybrid Plan) and the second is the Public Employees' Annuity Savings Account Only Plan (PERF ASA Only Plan). Details of the PERF Hybrid Plan and PERF ASA Only Plan are described below.

Membership

PERF members are officers and employees of units of State and local governments in Indiana (referred to as political subdivisions), including counties, cities, towns, townships, libraries, and school corporations. The political subdivisions become participants by ordinance or resolution of the governing body, which specifies the classifications of employees who will become members of the plan. The ordinance or resolution is filed with and approved by INPRS. In order to be a member, employees hired after June 30, 1982, except employees of a participating school corporation, must occupy positions normally requiring performance of service of more than 1,000 hours during a year. Effective July 1, 2008, members who have at least one (1) year of service in both PERF and TRF, have the option of choosing from which of these funds they would like to retire.

As of June 30, 2014, there were 1,125 participating political subdivisions in addition to the State. As of June 30, 2014, PERF membership consisted of:

| | |
|---|--------------------|
| Retired Members, Beneficiaries, and Disabled Members Receiving Benefits | 75,950 |
| Terminated Vested Members Entitled To But Not Yet Receiving Benefits | 24,013 |
| Terminated Non-Vested Members Entitled To a Distribution of ASA Balance | 50,997 |
| Active Members: Vested and Non-Vested | 137,567 |
| Total | <u>288,527</u> |
| Total Actual Covered Payroll for Active Members (dollars in thousands) | <u>\$4,896,635</u> |

Notes to the Financial Statements, continued June 30, 2014

Contributions

The State of Indiana is obligated by statute to make contributions to the PERF Hybrid Plan or the PERF ASA Only Plan. Any political subdivision that elects to participate in the PERF Hybrid Plan is obligated by statute to make contributions to the plan. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. As PERF is a cost-sharing plan, all risks and costs, including benefit costs, are shared proportionately by the participating employers. During fiscal year 2014, all participating employers were required to contribute 11.2 percent of covered payroll for members employed by the State. For political subdivisions, an average contribution rate of 9.7 percent was required from employers during the period of July 1 – December 31, 2013, and an average contribution rate of 11.0 percent was required for the period of January 1 – June 30, 2014. For the ASA Only Plan all participating employers were also required to contribute 11.2 percent of covered payroll. In accordance to IC 5-10.3-12-24, the amount credited from the employer's contribution rate to the member's account shall not be less than 3 percent and not be greater than the normal cost of the fund which was 4.7 percent for fiscal year 2014 and any amount not credited to the member's account shall be applied to the pooled assets of the PERF Hybrid Plan.

The PERF Hybrid Plan or the PERF ASA Only Plan members contribute three (3) percent of covered payroll to their annuity savings account, which is not used to fund the defined benefit pension for the PERF Hybrid Plan. For the PERF Hybrid Plan, the employer may elect to make the contributions on behalf of the member. The employer shall pay the member's contributions on behalf of the member for the PERF ASA Only Plan. In addition, members of the PERF Hybrid Plan (effective 7/1/2014 the PERF ASA Only Plan may also participate) may elect to make additional voluntary contributions, under certain criteria, of up to 10 percent of their compensation into their annuity savings accounts.

PERF Hybrid Plan

Plan Description

The PERF Hybrid Plan was established by the Indiana Legislature in 1945 and is governed by the INPRS Board of Trustees in accordance with Indiana Code (IC) 5-10.2, IC 5-10.3, and IC 5-10.5. There are two (2) aspects to the PERF Hybrid Plan defined benefit structure. The first portion is the monthly defined benefit pension that is funded by the employer. The second portion of the PERF Hybrid Plan benefit structure is the annuity savings account (ASA) that supplements the defined benefit at retirement.

Retirement Benefits – Defined Benefit Pension

The PERF Hybrid Plan retirement benefit consists of the sum of a defined pension benefit provided by employer contributions plus the amount credited to the member's annuity savings account. Pension benefits (non ASA) vest after 10 years of creditable service. The vesting period is eight (8) years for certain elected officials. Members are immediately vested in their annuity savings account. At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's annuity savings account, receive the amount as an annuity, or leave the contributions invested with INPRS. Vested PERF members leaving a covered position, who wait 30 days after termination, may withdraw their annuity savings account and will not forfeit creditable service or a full retirement benefit. However, if a member is eligible for a full retirement at the time of the withdrawal request, he/she will have to begin drawing his/her pension benefit in order to withdraw the annuity savings account. A non-vested member who terminates employment prior to retirement may withdraw his/her annuity savings account after 30 days, but by doing so, forfeits his/her creditable service. A member

Notes to the Financial Statements, continued June 30, 2014

who returns to covered service and works no less than six (6) months in a covered position may reclaim his/her forfeited creditable service.

A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. The average annual compensation in this calculation uses the highest 20 calendar quarters of salary in a covered position. All 20 calendar quarters do not need to be continuous, but they must be in groups of four (4) consecutive calendar quarters. The same calendar quarter may not be included in two (2) different groups. For PERF members who serve as an elected official, the highest one (1) year (total of four (4) consecutive quarters) of annual compensation is used. Member contributions paid by the employer on behalf of the member and severance pay up to \$2,000 are included as part of the member's annual compensation.

A member who has reached age 60 and has at least 15 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit. A member who is at least 55 years old and whose age plus number of years of creditable service is at least 85 is entitled to 100 percent of the benefits as described above.

A member who has reached at least age 50 and has at least 15 years of creditable service is eligible for early retirement with a reduced pension. A member retiring early receives a percentage of the normal annual pension benefit. The percentage of the pension benefit at retirement remains the same for the member's lifetime. For age 59, the early retirement percentage of the normal annual pension benefit is 89 percent. This amount is reduced five (5) percentage points per year (e.g., age 58 is 84 percent) to age 50 being 44 percent.

The monthly pension benefits for members in pay status may be increased periodically as cost of living adjustments (COLA). Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly. There was no COLA for the year ended June 30, 2014; however, eligible members received a one-time check (a.k.a. 13th check) in September 2013. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2012, and who was entitled to receive a monthly benefit on July 1, 2013.

Disability and Survivor Benefits

The PERF Hybrid Plan also provides disability and survivor benefits. A member who has at least five (5) years of creditable service and becomes disabled while in active service, on FMLA leave, receiving workers' compensation benefits, or receiving employer-provided disability insurance benefits may retire for the duration of the disability, if the member has qualified for social security disability benefits and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. The minimum benefit is \$180 per month, or the actuarial equivalent.

Upon the death in service of a member with 15 or more years of creditable service as of January 1, 2007, a survivor benefit may be paid to the surviving spouse to whom the member had been married for two (2) or more years, or surviving dependent children under the age of 18. This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age 50 or at death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits. A surviving spouse or surviving dependent children are also entitled to a

Notes to the Financial Statements, continued June 30, 2014

survivor benefit upon the death in service after January 1, 2007, of a member who was at least 65 years of age and had at least 10 but not more than 14 years of creditable service.

Retirement Benefits – Annuity Savings Account

Members are required to participate in an Annuity Savings Account (ASA). The ASA consists of the member's contributions, set by statute at three (3) percent of compensation as defined by IC 5-10.2-3-2 for PERF, plus the interest/earnings or losses credited to the member's account. The employer may elect to make the contributions on behalf of the member. In addition, under certain conditions, members may elect to make additional voluntary contributions of up to 10 percent of their compensation into their annuity savings accounts. A member's contributions and interest credits belong to the member and do not belong to the State or political subdivision.

Investments in the members' annuity savings accounts are individually directed and controlled by plan participants who direct the investment of their account balances among the following eight (8) investment options, with varying degrees of risk and return potential:

- **Guaranteed Fund** – This fund's objective is to provide stability of principal and a competitive interest rate. The interest rate is set by the INPRS Board of Trustees each year and is guaranteed for the fiscal year. Market risk is assumed by the Fund.
- **Large Cap Equity Index Fund** – This fund's objective is to seek investment growth/capital appreciation through passive investment in the stocks of the 500 largest U.S. companies. Market risk is assumed by the member.
- **Small/Mid Cap Equity Fund** – This fund's objective is to seek investment growth/capital appreciation through both active and passive investment in stocks of small- and mid-sized U.S. companies. Market risk is assumed by the member.
- **International Equity Fund** – This fund's objective is to seek investment growth/capital appreciation through both active and passive investment in stocks of non-U.S. companies in both developed and emerging markets. Market risk is assumed by the member.
- **Fixed Income Fund** – This fund's objective is to seek total return, consisting of income and capital appreciation. Market risk is assumed by the member.
- **Inflation-Linked Fixed Income Fund** – This fund's objective is to provide investors inflation protection and income consistent with investment in inflation-indexed securities. Principal and interest payments are adjusted in response to changes in inflation. Market risk is assumed by the member.
- **Target Date Funds** – The Funds are designed to seek an appropriate amount of total return, commensurate with risk, given the specific time horizon of each Fund. The Target Date Funds provide participants with a one-stop shop for investing. Participants simply choose the Fund most appropriate for them based on the year in which they plan to withdraw their money (usually their retirement year). Once a participant selects the appropriate Fund, the underlying asset allocation automatically adjusts over time. Market risk is assumed by the member.
- **Money Market Fund** – This fund's objective is to provide a market rate of return consistent with the preservation of capital through a shorter maturity, high quality portfolio. Market risk is assumed by the member.

Members may make changes to their investment directions daily and investments are reported at fair value.

Notes to the Financial Statements, continued June 30, 2014

ASA Only Plan

Plan Description

The PERF ASA Only Plan was established by the Indiana Legislature in 2011, and is governed by the INPRS Board of Trustees in accordance with IC 5-10.3-12, and IC 5-10.5. This plan is funded by an employer and a member for the use of the member, or the member's beneficiaries or survivors, after the member's retirement. PERF ASA Only Plan members are full-time employees of the State of Indiana (as defined in IC 5-10.3-7-1(d)), who are in a position eligible for membership in the PERF Hybrid Plan and who elect to become members of the PERF ASA Only Plan. The PERF ASA Only Plan membership does not include individuals who: (1) before March 1, 2013 were members of the PERF Hybrid Plan or (2) on or after March 1, 2013 do not elect to participate in the PERF ASA Only Plan. Any government agency that pays employees through the Auditor of the State is a mandatory participant in the ASA Only Plan and must offer eligible employees the ASA Only Plan option. Quasi-government agencies and State educational institutions may choose to offer the ASA-Only Plan as an option to their employees. Since inception, 395 members have selected the ASA Only Plan, or approximately 9 percent of eligible new hires of the State.

Retirement Account

The PERF ASA Only Plan maintains an annuity savings account for each member. Each member's account consists of two (2) subaccounts within the annuity savings account structure. There is a member contribution subaccount (which is the same as the annuity savings account in the PERF Hybrid Plan) and an employer contribution subaccount.

The member's contribution subaccount consists of the member's contributions, set by statute at three (3) percent of covered payroll as defined by IC 5-10.3-12-23 plus the interest/earnings or losses credited to the member's contribution subaccount. The State shall pay the member's contributions on behalf of the member. The employer contribution subaccount consists of the employer's contributions and the earnings on the employer's contributions. The employer contribution rate is set by INPRS Board of Trustees in accordance with IC 5-10.2-2-11.

The PERF ASA Only Plan allows members to actively participate in managing their retirement benefits through self-directed investment options. All contributions made to a member's account (member contribution subaccount and employer contribution subaccount) are invested as a combined total according to the member's investment elections. The members can direct their investments among the following aforementioned eight (8) investment options: Large Cap Equity Index Fund, Small/Mid Cap Equity Fund, International Equity Fund, Fixed Income Fund, Inflation-Linked Fixed Income Fund, Money Market Fund, Stable Value Fund, and Target Date Funds. A description of each of these Funds is earlier in this note in the PERF Hybrid Plan Retirement Benefits – Annuity Savings Account section, except for the Stable Value Fund:

- Stable Value Fund (available only to PERF ASA Only members) – This fund's objective is to provide a market rate of return consistent with the preservation of principal through a shorter maturity, high quality portfolio.

A member is immediately vested in the member contribution subaccount. In order to receive contributions and earnings from the employer contribution subaccount, a member must meet vesting requirements (full years of participation) to qualify for a distribution. The vesting schedule is as follows:

- One (1) year of participation = 20%
- Two (2) years of participation = 40%
- Three (3) years of participation = 60%

Notes to the Financial Statements, continued June 30, 2014

Four (4) years of participation = 80%

Five (5) years of participation = 100%

A member who terminates service with their employer is entitled to withdraw the total amount in the member contribution subaccount. In addition, the member is entitled to withdraw amounts in the employer contribution subaccount to the extent the member is vested in this account. The member must be separated from employment for at least 30 days before the member may take a withdrawal from the member's account. The amount available for withdrawal is the fair value of the participant's account on the processing date. The withdrawal amount can be paid in a lump sum, a direct rollover to another eligible retirement plan, or if the member has attained normal retirement age and met other criteria established by the INPRS Board of Trustees as a monthly annuity provided through INPRS.

If a member becomes disabled while in active service, subject to the member providing proof of the member's qualification for social security disability benefits to the Board of Trustees, a member may withdraw the total amount in the member contribution subaccount. To the extent that the member is vested, the member may make a withdrawal from the member's employer subaccount. The withdrawal amount can be paid in a lump sum, a direct rollover to another eligible retirement plan, or a monthly annuity provided through INPRS if the member has attained normal retirement age and met other criteria established by the INPRS Board of Trustees.

If a member dies while in active service or after terminating service in a position covered by the Plan, but before withdrawing the member's account, all of the member's contribution subaccount, and to the extent that the member is vested, the employer contribution subaccount, will be paid to the beneficiary or beneficiaries designated by the member. The amount available for payment is the fair value of the participant's account. The beneficiary may elect to have the member's account paid as a lump sum, a direct rollover to another eligible retirement plan, or as a monthly annuity in accordance with the rules of the INPRS Board of Trustees. The monthly annuity is an option only on or after the beneficiary attains normal retirement age and meets other criteria established by the INPRS Board of Trustees. If a member dies in the line of duty while in active service, the designated beneficiary or beneficiaries or surviving spouse or dependents, are entitled to payment of the member's account as described above. In addition, if the member was not fully vested in the employer contribution subaccount, the account is deemed to be fully vested for purposes of withdrawal.

(B) Teachers' Retirement Funds

The Indiana State Teachers' Retirement Fund (TRF) was established by the Indiana General Assembly in 1921. In 1955, TRF was designed as a pay-as-you-go defined benefit retirement plan. In 1995, legislation was passed that closed the pay-as-you-go plan (renamed the TRF Pre-1996 Account) to newly hired members and created a new account (named the TRF 1996 Account) for all members hired after June 30, 1995. TRF is two (2) cost-sharing, multiple-employer defined benefit plans, TRF Pre-1996 Account and TRF 1996 Account. TRF is governed by the INPRS Board of Trustees in accordance with IC 5-10.2, IC 5-10.4, and IC 5-10.5.

Teachers' Retirement Fund Pre-1996 Account

Plan Description

The Indiana State Teachers' Retirement Fund Pre-1996 Account (TRF Pre-1996) is a pay-as-you-go cost-sharing, multiple-employer defined benefit plan established to provide retirement, disability, and survivor benefits to public school

Notes to the Financial Statements, continued June 30, 2014

teachers and administrators, regularly employed licensed teachers at certain State universities and other educational institutions, and certain INPRS employees hired before July 1, 1995, and who have maintained continuous employment with the same school corporation or covered institution since that date to June 30, 2005. There are two (2) aspects to the TRF Pre-1996 defined benefit structure. The first portion is the monthly defined benefit pension that is funded by the State of Indiana. The second portion of the TRF Pre-1996 benefit structure is the annuity savings account that supplements the defined benefit at retirement and was described in the PERF Hybrid Plan Retirement Benefits – Annuity Savings Account section. Investment options are similar to the PERF Hybrid Plan.

Membership

Membership in TRF Pre-1996 is closed to new entrants. Legally qualified and regularly employed licensed teachers who serve in the public schools of Indiana, teachers employed by the State at State institutions, and certain INPRS employees hired before July 1, 2011, are required to participate in TRF as a condition of employment. Generally, members hired prior to 1996 participate in the TRF Pre-1996 Account and members hired after 1996 participate in the TRF 1996 Account (IC 5-10.2-2-2; IC 5-10.4-4-1; IC 5-10.4-7-1; 35 IAC 14-4-16(a)).

As of June 30, 2014, the number of participating employers was 339 in addition to the State. The State of Indiana makes contributions as the sole non-employer contributing entity. As of June 30, 2014, TRF Pre-1996 Account membership consisted of:

| | |
|---|----------------------------|
| Retired Members, Beneficiaries, and Disabled Members Receiving Benefits | 49,345 |
| Terminated Vested Members Entitled To But Not Yet Receiving Benefits | 3,314 |
| Terminated Non-Vested Members Entitled To a Distribution of ASA Balance | 546 |
| Active Members: Vested and Non-Vested | <u>19,210</u> |
| Total | <u><u>72,415</u></u> |
| Total Actual Covered Payroll for Active Members (dollars in thousands) | <u><u>\$ 1,262,828</u></u> |

Contributions

State appropriations are made in accordance with IC 5-10.4-2-4 for each fiscal year. Currently, a three (3) percent year-over-year increase is being provided through State appropriations. If the actual pension benefit payout for the fiscal year exceeds the amount appropriated, the difference is paid from the Pension Stabilization Fund as part of the assets of the TRF Pre-1996, which was established according to IC 5-10.4-2-5. As a nonemployer contributing entity, the State of Indiana contributed \$825.6 million in fiscal year 2014 to TRF Pre-1996. As part of the \$825.6 million contribution, the State pre-funded a one-time check (a.k.a. 13th check) of \$19 million in accordance with 2013 HB 1080 (which went into the Pension Stabilization Fund). Employers contributed \$6.3 million in fiscal year 2014.

TRF Pre-1996 Account members contribute three (3) percent of covered payroll to their annuity savings account, which is not used to fund the defined benefit pension. The employer may elect to make the contributions on behalf of the member. In addition, members may elect to make additional voluntary contributions, under certain criteria, of up to 10 percent of their compensation into their annuity savings accounts.

Teachers' Retirement Fund 1996 Account

Plan Description

The Indiana State Teachers' Retirement 1996 Account (TRF 1996) is a cost-sharing, multiple-employer defined benefit plan established to provide retirement, disability, and survivor benefits to public school teachers and administrators,

Notes to the Financial Statements, continued June 30, 2014

regularly employed licensed teachers at certain State universities and other educational institutions, and certain INPRS employees (hired before July 1, 2011) hired after June 30, 1995. Members who were hired before July 1, 1995, were members of TRF Pre-1996. However, pursuant to the law in place prior to July 1, 2005, if a member of TRF Pre-1996 left employment and re-employed after June 30, 1995, the member and the liability were transferred to TRF 1996. There are two (2) aspects to the TRF 1996 defined benefit structure. The first portion is the monthly defined benefit pension that is funded by the employer. The second portion of the TRF 1996 benefit structure is the annuity savings account that supplements the defined benefit at retirement and was described in the PERF Hybrid Plan Retirement Benefits – Annuity Savings Account section. Investment options are similar to the PERF Hybrid Plan.

Membership

Membership in TRF 1996 is required for all legally qualified and regularly employed licensed teachers who serve in the public schools of Indiana, teachers employed by the State at State institutions, and certain INPRS employees. Additionally, faculty members and professional employees at Ball State University and Vincennes University have the option of selecting membership in the Fund or the alternate University Plan not administered by INPRS. Membership in TRF 1996 is optional for teachers employed by charter schools, employees and officials of the Indiana State Board of Education who were Indiana licensed teachers prior to their employment with the Board, and teachers employed by special management teams as defined under IC 20-31 et Seq.

As of June 30, 2014, the number of participating employers was 362 in addition to the State. As of June 30, 2014, TRF 1996 Account membership consisted of:

| | |
|---|--------------|
| Retired Members, Beneficiaries, and Disabled Members Receiving Benefits | 3,665 |
| Terminated Vested Members Entitled To But Not Yet Receiving Benefits | 3,103 |
| Terminated Non-Vested Members Entitled To a Distribution of ASA Balance | 11,147 |
| Active Members: Vested and Non-Vested | 51,204 |
| Total | 69,119 |
| Total Actual Covered Payroll for Active Members (dollars in thousands) | \$ 2,598,115 |

Contributions

The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. As the TRF 1996 Account is a cost-sharing system, all risks and costs, including benefit costs, are shared proportionally by the participating employers. During fiscal year 2014, all participating employers in the TRF 1996 Account were required to contribute 7.5 percent of covered payroll.

TRF 1996 Account members contribute three (3) percent of covered payroll to their annuity savings account, which is not used to fund the defined benefit pension. The employer may elect to make the contributions on behalf of the member. In addition, members may elect to make additional voluntary contributions, under certain criteria, of up to 10 percent of their compensation into their annuity savings accounts.

TRF Pre-1996 Account and TRF 1996 Account Retirement Benefits

The TRF retirement benefit consists of the sum of a defined pension benefit provided by employer contributions plus the amount credited to the member's annuity savings account as described earlier in this note above. Pension benefits (non

Notes to the Financial Statements, continued June 30, 2014

ASA) vest after 10 years of creditable service. At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's annuity savings account, receive the amount as an annuity provided through INPRS, or leave the contributions invested with INPRS. Vested TRF members terminating service with an employer, who wait 30 days after termination, may withdraw their annuity savings account and will not forfeit creditable service or a future retirement benefit. However, if a member is eligible for a full retirement at the time of the withdrawal request, he/she will have to begin drawing his/her pension benefit in order to withdraw the annuity savings account. A non-vested member who terminates employment prior to retirement may withdraw his/her annuity savings account after 30 days, but by doing so forfeit his/her creditable service. A member who returns to covered service and works no less than six (6) months in a covered position may reclaim his/her forfeited creditable service.

A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. Generally, the average annual compensation in this calculation is the average of the highest five (5) years of annual compensation in a covered position. For TRF members who take a leave of absence to serve as an elected official, the highest one (1) year of salary is used. In order for a salary year to be included as one of the five (5) years, the member must have received at least one-half (1/2) year of service credit for that year as stated in IC 5-10.4-4-2. The five (5) years do not have to be continuous. Member contributions paid by the employer on behalf of the member and severance pay up to \$2,000 are included as part of the member's salary.

A member who has reached age 60 and has at least 15 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit. A member who is at least 55 years old and whose age plus number of years of creditable service is at least 85 is entitled to 100 percent of the benefits as described above.

A member who has reached at least age 50 and has at least 15 years of creditable service is eligible for early retirement with a reduced pension. A member retiring early receives a percentage of the normal annual pension benefit. The percentage of the pension benefit at retirement remains the same for the member's lifetime. For age 59, the early retirement percentage of the normal annual pension benefit is 89 percent. This amount is reduced five (5) percentage points per year (e.g., age 58 is 84 percent) to age 50 being 44 percent.

Monthly pension benefits for members in pay status may be increased as COLA. Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly. There was no COLA for the year ended June 30, 2014; however, eligible members did receive a one-time check (a.k.a. 13th check) in August 2013. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2012, and who was entitled to receive a monthly benefit on July 1, 2013.

TRF Pre-1996 Account and TRF 1996 Account Disability and Survivor Benefits

TRF also provides disability and survivor benefits. A member who has at least five (5) years of creditable service and becomes disabled while in active service, on FMLA leave, receiving workers' compensation benefits, or receiving employer-provided disability insurance benefits, may retire for the duration of the disability if the member has qualified for social

Notes to the Financial Statements, continued June 30, 2014

security disability benefits and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement.

Members are eligible for a classroom disability benefit once they have earned five (5) years of service, have a temporary or permanent disability that continues for six (6) months or more, and applies for classroom disability benefits within one (1) year of the disability. Classroom disability refers to a medically confirmed inability to continue classroom teaching due to a mental or physical condition that is not necessarily of sufficient severity to meet social security disability guidelines. The eligible members may receive \$125 per month plus \$5 for each additional year of service credit over five (5) years.

Upon the death in service of a member with 15 or more years of creditable service, a survivor benefit may be paid to the surviving spouse to whom the member had been married for two (2) or more years, or surviving dependent children under the age of 18. This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age 50 or at death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits. A surviving spouse or surviving dependent children are also entitled to a survivor benefit upon the death in service after March 31, 1990, of a member who was at least 65 years of age and had at least 10 but not more than 14 years of creditable service.

(C) 1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund) is a cost-sharing, multiple-employer defined benefit plan established to provide retirement, disability, and survivor benefits to all full-time police officers and firefighters who are hired (or rehired) after April 30, 1977. The 1977 Fund was established in 1977 and is governed by the INPRS Board of Trustees in accordance with IC 36-8-8 to provide coverage to full-time sworn officers of a police force of an Indiana city or town and full-time firefighters employed by an Indiana city, town, township or county.

Membership

As of June 30, 2014, the number of participating employers totaled 162. As of June 30, 2014, the 1977 Fund membership consisted of:

| | |
|---|------------|
| Retired Members, Beneficiaries, and Disabled Members Receiving Benefits | 3,491 |
| Terminated Vested Members Entitled To But Not Yet Receiving Benefits | 129 |
| Terminated Non-Vested Members Entitled To a Distribution of Contributions | 796 |
| Active Members: Vested and Non-Vested | 13,295 |
| Total | 17,711 |
| Total Actual Covered Payroll for Active Members (dollars in thousands) | \$ 710,581 |

Covered Payroll is the applicable first class officer pay for each member.

Contributions

The funding policy for the 1977 Fund requires remittances of member and employer contributions based on percentages of the salary of a first class officer or firefighter rather than actual payroll. The employer contribution rate is actuarially

Notes to the Financial Statements, continued June 30, 2014

determined. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 36-8-8-6. As the 1977 Fund is a cost-sharing system, all risks and costs, including benefit costs, are shared proportionally by the participating employers. During fiscal year 2014, all participating employers were required to contribute 19.7 percent of the salary of a first class officer or firefighter.

The member contribution rate is established by statute IC 36-8-8-8 at six (6) percent of the salary of a first class officer or firefighter. Each fund member shall contribute during the period of the fund member's employment or for 32 years, whichever is shorter. The employer may pay all or a part of the contribution for the member. Member contributions are used to fund a portion of the defined benefit payment unless the member ends employment other than by death or disability before the fund member completes 20 years of active service. The accumulated value of the member's contribution, including interest, may be withdrawn if the member terminates employment prior to completing 20 years of service. The INPRS Board of Trustees shall return to the fund member in a lump sum the fund member's contributions plus interest as determined by the INPRS Board of Trustees in accordance with IC 36-8-8-8.

Retirement Benefits

A member vests after 20 years of service. If the member retires at or after the age of 52 with 20 years of service, the benefit is equal to 50 percent of the salary of a first class officer, as reported by the employer in the year the 1977 Fund member ended service plus one (1) percent of that salary for each six (6) months of active service over 20 years to a maximum of 12 years. At age 50 and with 20 years of service, a member may elect to receive a reduced benefit by a factor established by the fund's actuary (IC 36-8-8-11).

The monthly pension benefits for members in pay status may be increased annually in accordance with the cost of living adjustment (COLA) statute (IC 36-8-8-15). A member is entitled to an annual increase in the member's benefit based on the percentage increase in the Consumer Price Index (January-March); however, the maximum increase is 3.0 percent. There was a COLA increase of 1.7 percent effective July 1, 2013.

Disability and Survivor Benefits

The 1977 Fund also provides disability and survivor benefits. An active member may file an application for disability benefits. A determination is then made by the local pension board, and reviewed by the INPRS Board of Trustees, as to whether the member has a covered impairment and whether the impairment was incurred in the line of duty or not. The calculation for disability benefits is based on when the member was first hired, the type of impairment and other factors. In addition, the heirs or estate of a fund member may be entitled to receive \$12,000 upon the member's death.

If a member dies while receiving retirement or disability benefits, there are provisions for the surviving spouse and child(ren) to receive a portion of the benefits. The member's surviving spouse is entitled to a monthly benefit equal to 60 percent of the member's monthly benefit during the spouse's lifetime. Each of the member's surviving child(ren) is entitled to a monthly benefit equal to 20 percent of the member's monthly benefit until the age of 18, or age 23, if a full-time student. If there is no eligible surviving spouse or child(ren), a dependent parent(s) may receive 50 percent of the member's monthly benefit during their lifetime.

Deferred Retirement Option Plan

The Deferred Retirement Option Plan (DROP) for the 1977 Fund was established by the Indiana Legislature in 2002 and is governed by the INPRS Board of Trustees in accordance with Indiana Code (IC) 36-8-8.5. Members of the 1977 Fund that

Notes to the Financial Statements, continued June 30, 2014

are eligible to retire may elect to accumulate a DROP benefit while continuing to work. At the time of their election, the member executes an irrevocable election to retire on a DROP retirement date and remains in active service contributing to the fund until that date. The DROP retirement date must be not less than twelve (12) months and not more than thirty-six (36) months after their DROP entry date, and not after the date they reach any mandatory retirement age that may apply. The member may make an election to enter the DROP only once in their lifetime. The DROP and future retirement monthly benefit is calculated as of the member's DROP entry date. At the time of retirement, the member must choose among the available options for distribution of the accumulated benefit under the DROP. As of June 30, 2014, the amount held by the plan pursuant to the DROP is \$45 million.

(D) Judges' Retirement System

Plan Description

The Judges' Retirement System (JRS) is a single-employer (the State of Indiana) defined benefit plan established to provide retirement, disability, and survivor benefits to judges and magistrates. JRS was established in 1985, and is governed through the INPRS Board of Trustees by IC 33-38-6, IC 33-38-7 (judges beginning service before September 1, 1985) and IC 33-38-8 (judges beginning service after August 31, 1985). Coverage is for any person who has served, is serving, or shall serve, as a regular judge or justice of the (1) Supreme Court of the State of Indiana, (2) Court of Appeals, (3) Indiana Tax Court, (4) Circuit Court of a Judicial Circuit, or (5) county courts including: Superior, Criminal, Probate, Juvenile, Municipal and County.

Membership

The Judges' Retirement System consists of two classes of members (the 1977 System and the 1985 System). The 1977 System includes all individuals who began service as a judge before September 1, 1985, unless the individual, within twenty days after becoming a judge, filed an irrevocable election not to participate in the 1977 System. The 1985 System covers all individuals who: (1) began service as a judge after August 31, 1985; and (2) are not participants in the 1977 System. Beginning January 1, 2011, full-time magistrates who were serving on July 1, 2010, may elect to be members of the 1985 System. The 1985 System is for all new judges, and beginning January 1, 2011, all new full-time magistrates (IC 33-38-8-10).

As of June 30, 2014, the Judges' Retirement System membership consisted of:

| | |
|---|------------------|
| Retired Members, Beneficiaries, and Disabled Members Receiving Benefits | 321 |
| Terminated Vested Members Entitled To But Not Yet Receiving Benefits | 67 |
| Terminated Non-Vested Members Entitled To a Distribution of Contributions | 32 |
| Active Members: Vested and Non-Vested | 365 |
| Total | <u>785</u> |
| Total Actual Covered Payroll for Active Members (dollars in thousands) | <u>\$ 46,041</u> |

Contributions

The funding policy for the Judges' Retirement System is in accordance with statute IC 33-38-6-17 that requires an appropriation by the Indiana General Assembly, determined by the INPRS Board of Trustees from the State of Indiana General Fund, for each biennium to the Judges' Retirement System computed on an actuarially funded basis and the recommendation of the actuary. The statute also provides for remittance of docket fees and court fees which are considered employer contributions. For fiscal 2014, employer contributions were \$20.9 million.

Notes to the Financial Statements, continued June 30, 2014

The member contribution rate is established by statute IC 33-38-7-10 (1977 System) and IC 33-38-8-11 (1985 System) at six (6) percent of salary. Each fund member shall contribute during the period of the fund member's employment, or for 22 years, whichever is shorter. The employer may pay all or a part of the contributions for the member. Member contributions are used to fund a portion of the defined benefit payment unless the member ends employment other than by death or disability before being eligible for a retirement benefit. The INPRS Board of Trustees shall return to the fund member an amount equal to the total sum contributed to the fund plus interest at a rate specified by the INPRS Board of Trustees in accordance with IC 33-38-7-13 (1977 System) and IC 33-38-8-12 (1985 System).

Retirement Benefits

A member vests after eight (8) years of creditable service. Judges who retire at or after age 65 with eight (8) years of creditable service (or are at least 55 years of age and the participant's age in years plus the participant's years of service total 85 or more) are entitled to an annual retirement benefit, payable monthly for life, in an amount calculated in accordance with the statute.

The annual retirement benefit for a participant equals the product of the salary that was paid to the participant at the time of separation from service, multiplied by a percentage for years of service as defined in the statute. Applicable salary for participants in the 1985 Judges' System is defined in IC 33-38-8-14(e). The pension benefit for participants of the 1977 Judges' System is based on the salary being paid for the office that the participant held at the time of separation from service [IC 33-38-7-11(d)]. The statute provides for the percentage to be prorated for partial years of service. If the annual retirement benefit of a participant who began service as a judge before July 1, 1977, as computed per IC 33-38-7-11, is less than the benefit the participant would have received under IC 33-38-6 as in effect on June 30, 1977, the participant is entitled to receive the greater amount as the participant's annual retirement benefit.

A member may retire at age 62 with the requisite years of service, however the participant's benefit is reduced by 0.1 percent for each month the member's age on the date the participant begins receiving a retirement benefit precedes the participant's 65th birthday.

The monthly pension benefits of the retired judges that were former participants in the 1977 System receive benefit increases whenever the salary of the position the retiree held at separation from service increases. Before fiscal year 2011, benefits of judges who are members of the 1985 System were tied to the salary of the position at the time the participant separated from service and did not increase if the salary of the position increased after the participant separated from service. Before fiscal year 2011, the General Assembly provided COLA increases to participants in the 1985 System on an "ad hoc" basis. Beginning after June 30, 2010, a participant in the 1985 System receives an increase in the monthly benefit of the same percentage by which the salary of the office of the participant held at separation from service increases. The percentage increase to the monthly benefit takes effect at the same time the salary increase takes effect (IC 33-38-8-25). There was a COLA increase of 3.1 percent effective July 1, 2013, for eligible participants in the 1977 System and 1985 System.

Disability and Survivor Benefits

There is no vesting requirement for permanent disability benefits. For both the 1977 System and the 1985 System, a participant is considered permanently disabled if the INPRS Board of Trustees receives a written certification by at least two (2) licensed and practicing physicians appointed by the INPRS Board of Trustees. A participant receiving disability benefits must be reexamined at least once a year by at least two (2) physicians appointed by the INPRS Board of Trustees.

Notes to the Financial Statements, continued June 30, 2014

Surviving spouses or dependent child(ren) are entitled to benefits if the participant had qualified to receive a retirement or disability benefit, or had completed at least eight (8) years of service and was in service as a judge. The minimum survivor benefit is \$12,000.

(E) State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan

Plan Description

The State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan (EG&C Plan) is a single-employer (the State of Indiana) defined benefit plan established to provide retirement, disability, and survivor benefits to certain employees of the (1) Indiana Department of Natural Resources, (2) Indiana Alcohol and Tobacco Commission and (3) any Indiana State excise police officer, Indiana State conservation enforcement officer, gaming agent or any gaming control officer who is engaged exclusively in the performance of law enforcement duties. The EG&C Plan was established in 1972 and is governed by the INPRS Board of Trustees in accordance with IC 5-10-5.5.

Membership

As of June 30, 2014, the EG&C Plan membership consisted of:

| | |
|---|------------------|
| Retired Members, Beneficiaries, and Disabled Members Receiving Benefits | 193 |
| Terminated Vested Members Entitled To But Not Yet Receiving Benefits | 4 |
| Terminated Non-Vested Members Entitled To a Distribution of Contributions | 87 |
| Active Members: Vested and Non-Vested | 473 |
| Total | <u>757</u> |
| Total Actual Covered Payroll for Active Members (dollars in thousands) | <u>\$ 25,825</u> |

Contributions

The funding policy for the EG&C Plan is in accordance with statute IC 5-10-5.5-8.5. The employer contribution rate is actuarially determined. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation. During fiscal year 2014, the State of Indiana was required to contribute 20.75 percent of covered payroll.

The member contribution rate is established by statute IC 5-10-5.5-8 at four (4) percent of a participant's salary to be contributed to the participant's savings account. The employer may pay all or a part of the contribution for the participant. Member contributions are used to fund a portion of the defined benefit payment. Any participant who terminates employment before accumulating 15 years of creditable service and before attaining the age of 45 shall be entitled to a lump sum refund of all contributions in the participant's savings account plus accumulated interest as determined by the INPRS Board of Trustees in accordance with IC 5-10-5.5-17.

Retirement Benefits

Generally, pension benefits vest after 15 years of creditable service. Officers becoming participants after age 50 are vested after completion of 10 years of service. A participant is entitled to an annual pension benefit, paid in equal monthly installments beginning on the participant's normal retirement date, equal to 25 percent of the participant's average annual salary. A participant who completes more than 10 years of creditable service is entitled to receive an additional amount

Notes to the Financial Statements, continued June 30, 2014

equal to 1.67 percent of the participant's average annual salary for each completed year of creditable service over 10 years. However, a participant's annual pension benefit may not exceed 75 percent of the participant's average annual salary.

Each participant is required to retire on or before the first day of the month following the participant's 65th birthday. However, a participant who is hired after age 50 must retire upon the earlier of: (1) the first day of the month following the participant's 65th birthday; or (2) the first day of the month following the date the participant completes 15 years of creditable service. A participant, who is at least 55 years of age and the sum of the participant's years of creditable service and age in years, equals at least 85, may retire and become eligible for full retirement benefits. In addition, a participant may elect full retirement benefits at age 50 with 25 years of service. A reduced benefit is provided for early retirements that are elected upon attainment of age 45 with at least 15 years of creditable service. The monthly benefit is reduced by 0.25 percent for each full month by which the participant's early retirement date precedes the participant's 60th birthday.

Any participant who terminates service before accumulating 15 years of creditable service may become a member of the Public Employees' Retirement Fund (PERF). Upon payment of contributions and interest required by the INPRS Board of Trustees, the withdrawing participant shall be entitled to transfer creditable service to PERF.

The monthly pension benefits for members in pay status may be increased periodically as COLA. Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly. There was no COLA for the year ended June 30, 2014; however, eligible members did receive a one-time check (a.k.a. 13th check) in September 2013. The amount of the one-time check ranged from \$125 to \$400, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2012, and who was entitled to receive a monthly benefit on July 1, 2013.

Disability and Survivor Benefits

A participant who becomes permanently or temporarily disabled from performing all suitable and available work "on the force" for which the participant is or may be capable of becoming qualified, considering reasonable accommodation to the extent required by the Americans and Disability Act, is entitled to receive a disability benefit. The amount of the disability benefit paid to a participant depends on whether the disability arose in the line of duty, the degree of impairment as determined by INPRS Board of Trustees' medical authority, and the participant's monthly salary. A participant is entitled to receive creditable service for the time the participant receives disability benefits under a State disability plan established under IC 5-10-8-7.

If a participant has more than 15 years of creditable service at the time of death, survivor benefits are payable to the surviving spouse, parents, or dependent children, as nominated by the participant's written direction, acknowledged, and filed with the INPRS Board of Trustees. The surviving spouse or the parent(s) is entitled to an annual survivor's allowance for life equal to 50 percent of the amount the participant would have been entitled to if he/she had retired on the date of death. If nominated and eligible, surviving unmarried minor child(ren) are entitled to an annual survivor's allowance equal to 50 percent of the amount the participant would have been entitled to if he/she had retired, divided equally between or among all nominated and eligible children. This benefit will continue until the child reaches 18 years of age or marries, whichever occurs first.

Notes to the Financial Statements, continued June 30, 2014

Deferred Retirement Option Plan

The DROP for the EG&C Plan was established by the Indiana Legislature in 2008 and is governed by the INPRS Board of Trustees in accordance with Indiana Code (IC) 5-10-5.5-22. Members of the EG&C Plan that are eligible to retire at an unreduced annual retirement allowance, may elect to accumulate a DROP benefit while continuing to work. At the time of their election, the member executes an irrevocable election to retire on a DROP retirement date and remains in active service contributing to the plan until that date. The DROP retirement date must be not less than twelve (12) months and not more than thirty-six (36) months after their DROP entry date, and not after the date they reach any mandatory retirement age that may apply. The member may make an election to enter the DROP only once in their lifetime. The DROP and future retirement monthly benefit is calculated as of the member's DROP entry date. At the time of retirement, the member must choose among the available options for distribution of the accumulated benefit under the DROP. As of June 30, 2014, the amount held by the plan pursuant to the DROP is \$2 million.

(F) Prosecuting Attorneys' Retirement Fund

Plan Description

The Prosecuting Attorneys' Retirement Fund (PARF) is a single-employer (the State of Indiana) defined benefit plan established to provide retirement, disability, and survivor benefits to prosecuting attorneys. PARF was established in 1989 and is governed through the INPRS Board of Trustees by IC 33-39-7. Coverage is for individuals who: (1) serve as a prosecuting attorney or a chief deputy prosecuting attorney; or (2) serve as the executive director or assistant executive director of the Indiana Prosecuting Attorneys Council or as a State-paid deputy prosecuting attorney. These individuals' salaries are paid from the General Fund of the State of Indiana.

Membership

As of June 30, 2014, the PARF membership consisted of:

| | |
|---|-----------|
| Retired Members, Beneficiaries, and Disabled Members Receiving Benefits | 95 |
| Terminated Vested Members Entitled To But Not Yet Receiving Benefits | 83 |
| Terminated Non-Vested Members Entitled To a Distribution of Contributions | 162 |
| Active Members: Vested and Non-Vested | 210 |
| Total | 550 |
| Total Actual Covered Payroll for Active Members (dollars in thousands) | \$ 20,608 |

Contributions

The funding policy for PARF is in accordance with statute IC 33-39-7-23 that requires an appropriation, determined by the INPRS Board of Trustees from the State of Indiana General Fund, for each biennium to PARF computed on an actuarially funded basis and the recommendation of the actuary. For fiscal year 2014, employer contributions were \$1.2 million.

The member contribution rate is established by statute IC 33-39-7-12 at six (6) percent of salary. The employer may elect to pay the contributions for a member. Members receive interest earnings at a rate specified by the INPRS Board of Trustees in accordance with IC 33-39-7-14. Member contributions are used to fund a portion of the defined benefit payment unless the member ends employment other than by death or disability before the member completes eight (8) years of creditable service. The INPRS Board of Trustees shall return to the fund member an amount equal to the total sum contributed to the fund plus interest as determined by the INPRS Board of Trustees in accordance with IC 33-39-7-13.

Notes to the Financial Statements, continued June 30, 2014

Retirement Benefits

A participant is entitled to a retirement benefit if the participant: (1) is at least age 62; (2) has at least eight (8) years of service credit; and (3) is not receiving salary for services currently performed. A member whose service ended prior to July 1, 2006 must have at least ten (10) years of service.

The retirement benefit of a participant who is at least age 65 is calculated by multiplying: (1) the highest annual salary paid to the participant before the participant's separation from service; by (2) a percentage based on the participant's years of service. The percentages range from 24 percent for eight (8) years of service to 60 percent for 22 or more years of service. If a participant is at least 62 years of age with at least eight (8) years of creditable service, a participant is entitled to receive a reduced annual retirement benefit that equals the benefit, as calculated above, reduced by 0.25 percent per month for each month the participant retires prior to age 65.

In addition, a PARF participant is a member of PERF. A PARF participant's retirement benefit is reduced by the amount of the employer-financed pension benefit that would be payable to the participant had the participant retired from PERF on the date of the participant's retirement from the fund. However, the benefits payable to a participant from the fund are not reduced by any payments made to the participant from the participant's PERF annuity savings account. The employer may elect to make the contributions on behalf of the member.

Disability and Survivor Benefits

PARF also provides disability and survivor benefits. A participant who has at least five (5) years of creditable service and becomes disabled while in active service may retire for the duration of the disability if the participant has qualified for social security disability benefits and has furnished proof of the qualification. The amount of the annual benefit payable to a participant for disability benefits is equal to the product of the annual salary that was paid to the participant at the time of separation from service multiplied by a percentage based on the participant's years of service. The percentages range from 40 percent for 5 to 10 years of service to 50 percent for 20 or more years of service. These benefits are reduced by any benefits payable to the participant from PERF.

The surviving spouse or designated beneficiary of a participant is entitled to a benefit if, on the date of the participant's death, the participant: (1) was receiving benefits; (2) has completed at least eight (8) years of service and was in service as a prosecuting attorney or chief deputy prosecuting attorney, executive director or assistant executive director of the Indiana Prosecuting Attorneys Council, or as a State-paid deputy prosecuting attorney; or (3) had met the requirements for a disability benefit.

Regardless of the participant's age at death, the surviving spouse's benefit is equal to the greater of: (1) \$7,000 annually; or (2) 50 percent of the amount of retirement benefit the participant was drawing at the time of death, or to which the participant would have been entitled had the participant retired and begun receiving retirement benefits on the date of death; survivor benefits are not subject to reduction for early retirement. If there is not a surviving spouse, there are provisions for dependents to receive benefits.

(G) Legislators' Retirement System

Plan Description

The Legislators' Retirement System was established in 1989 by IC 2-3.5 and accordingly are governed by the INPRS Board

Notes to the Financial Statements, continued June 30, 2014

of Trustees. The retirement system is for certain members of the General Assembly of the State of Indiana as specified by the provisions of the statute.

The Legislators' Retirement System is comprised of two (2) separate and distinct plans. The Legislators' Defined Benefit Plan (LEDB Plan) (IC 2-3.5-4), a single-employer (the State of Indiana) defined benefit plan, applies to members of the General Assembly who were serving on April 30, 1989, and who filed an election under IC 2-3.5-3-1(b). The Legislators' Defined Contribution Plan (LEDC Plan) (IC 2-3.5-5) applies to: (1) members of the General Assembly who were serving on April 30, 1989, and who filed an election under IC 2-3.5-3-1(b); (2) members of the General Assembly who are first elected or appointed after April 30, 1989; and (3) members of the General Assembly who: (a) served before April 30, 1989; (b) were not serving on April 30, 1989; and (c) are subsequently reelected or reappointed to the General Assembly.

Membership

As of June 30, 2014, the Legislators' Retirement System membership consisted of:

| | Legislators' | |
|---|-------------------------|------------------------------|
| | Defined Benefit Plan | Defined Contribution Plan |
| Retired Members, Beneficiaries, and Disabled Members Receiving Benefits | 68 | - |
| Terminated Vested Members Entitled To But Not Yet Receiving Benefits | 9 | - |
| Terminated Non-Vested Members Entitled To a Distribution of Contributions | - | 70 |
| Active Members: Vested and Non-Vested | 24 | 149 |
| Total | 101 | 219 |

A member of the LEDB Plan, under certain circumstances, may also be a member of the LEDC Plan.

Legislators' Defined Benefit Plan

The LEDB Plan provides retirement, disability and survivor benefits. The LEDB Plan is closed to new entrants, as members of the General Assembly who began service after April 30, 1989, are not members of this plan.

Contributions

For the LEDB Plan, the funding policy is in accordance with statute IC 2-3.5-4-9 and IC 2-3.5-4-10. The amount required to actuarially fund participants' retirement benefits, as determined by the INPRS Board of Trustees on the recommendation of the actuary, is to be appropriated from the State of Indiana General Fund for each biennium. For fiscal year 2014, employer contributions were \$0.1 million.

Retirement Benefits

A participant is entitled to an unreduced monthly retirement benefit if the participant is: (1) at least age 65 and has at least 10 years of service as a member of the General Assembly; (2) at least age 55 and whose years of service as a member of the General Assembly plus years of age equal at least 85; or (3) at least age 60 and has at least 15 years of service as a member of the General Assembly. To qualify for a monthly retirement benefit, the member: (1) must have terminated service as a member of the General Assembly; (2) has at least 10 years of service as a member of the General Assembly; and (3) is not receiving and is not entitled to receive a salary from the State.

Notes to the Financial Statements, continued June 30, 2014

The monthly retirement benefit is equal to the lesser of: (1) \$40 multiplied by the number of years of service in the General Assembly completed before November 8, 1989, or (2) the highest consecutive three-year average annual salary of the participant under IC 2-3-1-1 at the date the participant's service as a member of the General Assembly is terminated, divided by 12.

A participant who has reached at least age 55, has terminated service as a member of the General Assembly, has at least 10 years of service as a member of the General Assembly, and is not receiving, nor is entitled to receive, a salary from the State of Indiana, is eligible for early retirement with a reduced benefit. The reduction in the benefit is equal to: (1) 0.1 percent a month between ages 60 and 65; and (2) 5/12 percent a month between ages 55 and 60.

The monthly pension benefits for members in pay status are increased periodically as COLA. COLA increases for the LEDB Plan are equal to the increase for the PERF Plan in accordance with IC 2-3.5-4-13 on an "ad hoc" basis and are generally based on date of retirement, and other eligibility factors. There was no COLA for the year ended June 30, 2014.

The LEDB Plan also provides disability and survivor benefits. A member who has at least five (5) years of creditable service and becomes disabled while in active service may retire for the duration of the disability if the member has qualified for social security disability and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. If a participant dies while receiving retirement benefits, or had completed at least 10 years of service as a member of the General Assembly, or was permanently disabled and receiving disability benefits from the system, the surviving spouse is entitled to receive survivor benefits. The benefits are for life and are equal to 50 percent of the amount of retirement benefits that the participant was receiving at the time of death or that the participant would have been entitled to receive at 55 years of age, or at the date of death, whichever is later. If there is not a surviving spouse, there are provisions for dependents to receive benefits.

Legislators' Defined Contribution Plan

For the LEDC Plan, each participant is required to contribute five (5) percent of annual salary in accordance with statute IC 2-3.5-5-4. In addition, the State of Indiana is required by statute IC 2-3.5-5-5.5 to contribute a percentage of the member's annual salary on behalf of the participant as determined by INPRS Board of Trustees and confirmed by the State Budget Agency each year. This rate, by statute, cannot exceed the total contribution rate paid that year by the State to PERF for State employees. The State contribution rate is the sum of: (1) the State's employer contribution rate for State employees, and (2) the rate the State pays on behalf of State employees to their annuity savings accounts (3.0 percent).

The contribution rate for calendar year 2013 was 12.7 percent and the rate for calendar year 2014 is 14.2 percent.

Investments in the members' accounts are individually directed and controlled by plan participants who direct the investment of their account balances among several investment options of varying degrees of risk and return potential. There are nine (9) investment options available to LEDC Plan members: Defined Benefit Unitized Assets, Stable Value Fund, Fixed Income Fund, Inflation-Linked Fixed Income Fund, Money Market Fund, Small/Mid Cap Equity Fund, Large Cap Equity Index Fund, International Equity Fund and Target Date Funds. Members may make changes to their investment directions daily and investments of the plan are reported at fair value.

A participant of the LEDC Plan who terminates service as a member of the General Assembly is entitled to withdraw both the employee and employer contributions to the LEDC Plan. The amount available for withdrawal is the fair market value

Notes to the Financial Statements, continued June 30, 2014

of the participant's account on the processing date. Account balances are fully vested to the participants. The withdrawn amount can be paid in a lump sum, a partial lump sum, a monthly annuity as purchased by the INPRS Board of Trustees, or a series of monthly installment payments over 60, 120, or 180 months as elected by the participant.

If a participant dies while a member of the General Assembly or after terminating service as a member, but prior to withdrawing from the LEDC Plan, the participant's account is to be paid to the beneficiary(ies) or to the survivor(s) if there is no properly designated beneficiary, or if no beneficiary survives the participant. The amount to be paid is the fair market value of the participant's account (employer and employee contributions) on the processing date.

(H) Non-Retirement Plans

State Employees' Death Benefit Fund

Indiana Code 5-10-11 established the State Employees' Death Benefit program, which is an Other Postemployment Benefit plan (OPEB). Under the program as of July 1, 2013, a death benefit of \$100,000 is to be paid in a lump sum to the surviving spouse, or if there is no surviving spouse, to the surviving child(ren) and stepchildren (to be shared equally) of a State of Indiana employee who dies in the line of duty as defined in the statute. The children and stepchildren must also be dependent on the State employee who died in the line of duty.

The law provides that "the State may provide these benefits by purchasing group life insurance or by establishing a program of self-insurance." It was determined that a program of self-insurance would be established, and effective with the State's pay period ended October 23, 1993, the State assessed State agencies 0.1 percent of gross pay to fund this program. Due to the size of the fund and the infrequency of payments, collection of the assessment was ceased in November 1999. The measurement of potential liability and the related disclosures required for Other Postemployment Benefit plans, have been excluded as they would not be material to the INPRS system.

Public Safety Officers' Special Death Benefit Fund

Indiana Code 5-10-10 established the Public Safety Officers' Special Death Benefit Fund, which is an Other Postemployment Benefit plan (OPEB). The fund was established for the purpose of paying a lump sum death benefit of \$150,000 to the surviving spouse or child(ren) of a public safety officer (as defined by IC 5-10-10-4) or other eligible officers (as defined by IC 5-10-10-4.5) who die in the line of duty. If there is no surviving spouse or child(ren), the benefit is paid to the parent(s) in equal shares. The fund consists of bail bond fees remitted under IC 35-33-8-3.2, payments under IC 5-10-10-4.5, and investment earnings of the fund. The measurement of potential liability and the related disclosures required for Other Postemployment Benefit plans, have been excluded as they would not be material to the INPRS system.

Pension Relief Fund

The Pension Relief Fund (PR Fund) was created by the Indiana General Assembly in 1980 (IC 5-10.3-11) and is an Agency Fund. The purpose of the PR Fund is to give financial relief to pension funds maintained by units of local government for their police officers' and firefighters' retirement plan benefits.

Funding for the PR Fund is derived from contributions from the State of Indiana from a portion of cigarette and alcohol taxes, a portion of the State's lottery proceeds, interest earned by the Public Deposit Insurance Fund, investment income earned, and appropriations from the General Assembly.

Notes to the Financial Statements, continued June 30, 2014

Distributions are made from the PR Fund to units of local government in two equal installments before July 1 and before October 2 of each year. Effective January 1, 2009, the distribution is determined by an estimate of the total amount of pension, disability and survivors benefits from the 1925 Police Pension Fund (IC 36-8-6), the 1937 Firefighters' Pension Fund (IC 36-8-7), and the 1953 Police Pension Fund (IC 36-8-7.5). The estimate is prepared by the actuary on a city-by-city basis, and on a departmental basis.

As defined by IC 36-8-8-20, the PR Fund also pays a lump sum line of duty death benefit of \$150,000. As defined by IC 36-8-8-14.1, the benefit is paid to the following relative(s) of a fund member who dies in the line of duty: (1) to the surviving spouse; (2) if there is no surviving spouse, to the surviving child(ren) (to be shared equally); (3) if there is no surviving spouse or child(ren), to the parent(s) in equal shares.

In accordance with IC 5-10.3-11-6, separate accounts are maintained by INPRS for each unit of local government for amounts that have not been distributed to the local units. These amounts remain invested in the fund and are available to the units of local government at their request. As of June 30, 2014, units of local government had investments with a market value of approximately \$2.1 million on deposit in the PR Fund.

Note 2. Summary of Significant Accounting Policies

(A) Reporting Entity

Established July 1, 2011, the Indiana Public Retirement System and the governing board of trustees merged the administration of the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF). INPRS is an independent body corporate and politic and is not a department or agency of the State, but is an independent instrumentality exercising essential government functions (Public Law 23-2011). For these reasons, INPRS is a pension trust fund of the State of Indiana for financial statement reporting purposes.

The financial statements presented in this report represent only those funds for which the INPRS Board of Trustees has responsibility and are not intended to present the financial position or results of operations of the State of Indiana or all of the retirement and benefit plans administered by the State.

The INPRS Board of Trustees administers nine (9) pension trust funds [eight (8) Defined Benefit plans and one (1) Defined Contribution plan], two (2) death benefit funds accounted for as other postemployment benefit funds, and an agency fund. These fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others.

The following funds are included in the financial statements:

- Public Employees' Retirement Fund (PERF);
- Teachers' Retirement Fund Pre-1996 Account (TRF Pre-1996);
- Teachers' Retirement Fund 1996 Account (TRF 1996);
- 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund);
- Judges' Retirement System (JRS);
- State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan (EG&C Plan);
- Prosecuting Attorneys' Retirement Fund (PARF);
- Legislators' Defined Benefit Plan (LEDB Plan);
- Legislators' Defined Contribution Plan (LEDC Plan);
- State Employees' Death Benefit Fund;
- Public Safety Officers' Special Death Benefit Fund; and
- Pension Relief Fund (PR Fund).

See Note 1 for descriptions of these funds.

(B) Basis of Accounting

The financial statements of INPRS have been prepared using the accrual basis of accounting in conformity with generally accepted accounting principles (GAAP) as applied to government units. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when liabilities are incurred, regardless of the timing of related cash flows. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for established governmental accounting and financial reporting principles. INPRS applies all applicable GASB pronouncements in accounting and reporting for its operations.

Notes to the Financial Statements, continued June 30, 2014

(C) Use of Estimates

In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, the Board makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

(D) Reclassifications

Certain reclassifications have been made within the fiscal year 2013 financial statements to conform with the classifications for fiscal year 2014. These changes have no material impact on total net position for either fiscal year presented.

(E) Contributions Receivable

Contributions are recognized as revenues when earned, pursuant to legal requirements. Member and employer contributions are earned on the employers' payroll date. The estimate for contributions receivable at year-end was calculated utilizing member and employer contributions from the last reported payroll period. Contributions receivable and revenue pursuant to service purchase credits are recognized in full in the year in which the service purchase contract is signed.

In addition to actuarially determined contractually required contributions, one employer also makes quarterly installment payments, including interest at 7.25 percent per year, for the cost of service credits granted retroactively when the employer resolved to enlarge participation in the Public Employees' Retirement Fund. As of June 30, 2014, the outstanding balance was \$1.1 million. This agreement was entered into effective July 1, 2000, to be amortized over forty (40) years.

(F) Deposit and Investment Policies and Provisions

Oversight of INPRS' assets is the responsibility of the INPRS Board of Trustees. Indiana law requires the Board to establish investment guidelines and limits on all types of investments and take other actions necessary to fulfill its duty as a fiduciary for all assets under its control. The INPRS Board of Trustees is required to diversify investments in accordance with the prudent investor standards.

At June 30, 2014, cash and investments of the funds were held by banks or trust companies under custodial agreements with INPRS. The INPRS Board of Trustees contracts with investment counsel, trust companies or banks to assist INPRS in its investment program. The Investment Policy Statement adopted by the INPRS Board of Trustees including the asset allocation approved by the Board of Trustees contains target allocations and allowable ranges that are expected to meet target rates of return over a long period of time while minimizing risk. See Note 3 for more information.

There were no investment policy changes during the fiscal year.

Investment purchases and sales of securities are recorded as of their trade date.

Notes to the Financial Statements, continued June 30, 2014

(G) Method Used to Value Investments

The pooled and non-pooled investments are reported at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Short-term investments consist primarily of cash, money market funds, certificates of deposits and fixed income instruments with maturities of less than one year. Short-term investments are reported at cost, which approximates fair value or, for fixed income instruments, valued using similar methodologies as other fixed income securities described below.

Fixed income securities consist primarily of the U.S. government, U.S. government-sponsored agencies, publicly traded debt and commingled investment debt instruments. Equity securities consist primarily of domestic and international stocks in addition to commingled equity instruments. Fixed income and equity securities are generally valued based on published market prices and quotations from national security exchanges and securities pricing services. Securities that are not traded on a national security exchange are valued using modeling techniques that include market observable inputs required to develop a fair value. Commingled funds are valued using the net asset value (NAV) of the entity.

Alternative investments include limited partnership interests in private equity, absolute return, private real estate and risk parity investment strategies. Publicly traded alternative investments are valued based on quoted market prices. In the absence of readily determinable public market values, alternative investments are valued using current estimates of fair value obtained from the general partner or investment manager. Moreover, holdings are generally valued by a general partner or investment manager on a quarterly or semi-annual basis. Valuation assumptions are based upon the nature of the investment and the underlying business. Additionally, valuation techniques will vary by investment type and involve a certain degree of expert judgment. Alternative investments, such as investments in private equity or real estate, are generally considered to be illiquid long-term investments. Due to the inherent uncertainty that exists in the valuation of alternative investments, the realized value upon the sale of an asset may differ from the fair value.

Derivative instruments are marked to market daily with changes in fair value recognized as part of investments and investment income.

(H) Pooled Investment Unit Trust Accounting

Pooled unit trust accounting involves assigning units to each fund based on the share of the fund's investment fair value to the total fair value of the consolidated investments. The per-unit value of all participating funds will increase or (decrease) based on investment earnings or (losses) and appreciation or (depreciation). Deposits and withdrawals for each fund change the number of units held by each fund. These changes are recorded at the unit value on the transaction date. Investment earnings or losses and fees for the total consolidated fund are allocated to each of the pension funds on a daily basis.

In accordance with GASB criteria for internal investment pools, the assets and liabilities are allocated pro rata to each of the funds within the pool. This includes investment and foreign exchange contract receivables, interest and dividend receivables, securities lending collateral, investment and foreign exchange contract payables, securities lending obligations, obligations under reverse repurchase agreements and the investment holdings.

Notes to the Financial Statements, continued June 30, 2014

The INPRS Board of Trustees approved unitizing investment assets in order to provide for a consolidated rate of return and to invest in a diversified manner.

The INPRS Board of Trustees unitized, into a consolidated pool, the defined benefit assets of the following retirement funds and pension systems known collectively as the Consolidated Defined Benefit Assets:

- Public Employees' Retirement Fund (PERF)
- Teachers' Retirement Fund Pre-1996 Account (TRF Pre-1996)
- Teachers' Retirement Fund 1996 Account (TRF 1996)
- 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund)
- Judges' Retirement Fund (JRS)
- State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Fund (EG&C Plan)
- Prosecuting Attorneys' Retirement Fund (PARF)
- Legislators' Defined Benefit Plan (LEDB Plan)

The INPRS Board of Trustees unitized into two separate consolidated pools that include the ASA investment assets of PERF, TRF Pre-1996 and TRF 1996 and, the Defined Contribution Assets of LEDC. The first pool is comprised of the PERF, TRF Pre-1996, and TRF 1996 assets in the Guaranteed Fund, also known as the ASA Guaranteed Fund Assets. The second pool is comprised of all other ASA assets and the LEDC Defined Contribution assets.

The State Employees' Death Benefit Fund and the Public Safety Officers' Special Death Benefit Fund are pooled into the Death Benefit Unit Trust.

A summary of the pooled unit trust investments held by unitized value and fund is as follows:

(dollars in thousands)

| Trust Fund | Consolidated Defined Benefit Assets (1) | ASA Guaranteed Fund Assets | All Other ASA/Defined Contribution Assets (2) | Death Benefit Funds | Pooled Unit Trust Investments |
|---|--|-------------------------------------|--|---------------------------|-------------------------------------|
| Public Employees' Retirement Fund | \$ 11,256,330 | \$ 1,867,992 | \$ 964,461 | \$ - | \$ 14,088,783 |
| Teachers' Retirement Fund Pre-1996 Account | 3,867,814 | 958,256 | 760,655 | - | 5,586,725 |
| Teachers' Retirement Fund 1996 Account | 4,072,474 | 577,599 | 541,986 | - | 5,192,059 |
| 1977 Police Officers' and Firefighters' Pension and Disability Fund | 4,756,240 | - | - | - | 4,756,240 |
| Judges' Retirement System | 429,086 | - | - | - | 429,086 |
| State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan | 110,837 | - | - | - | 110,837 |
| Prosecuting Attorneys' Retirement Plan | 54,422 | - | - | - | 54,422 |
| Legislators' Defined Benefit Plan | 3,492 | - | - | - | 3,492 |
| Legislators' Defined Contribution Plan | 9,628 | - | 18,582 | - | 28,210 |
| State Employees' Death Benefit Fund | - | - | - | 7,917 | 7,917 |
| Public Safety Officers' Special Death Benefit Fund | - | - | - | 5,068 | 5,068 |
| Total INPRS Unitized Investments | \$ 24,560,323 | \$ 3,403,847 | \$ 2,285,684 | \$ 12,985 | \$ 30,262,839 |

¹Assets represent members of the LEDC Plan who have elected the Consolidated Defined Benefit Assets option.

²All other ASA/Defined Contribution Assets consist of PERF, TRF Pre-1996 and TRF 1996 ASA assets which are not invested into the Guaranteed Fund plus other Legislators' defined contributions that are not invested into the Consolidated Defined Benefit Assets.

Notes to the Financial Statements, continued June 30, 2014

(I) Investments and Foreign Exchange Contracts Receivable and Investments and Foreign Exchange Contracts Payable

Investments and foreign exchange contracts receivable in addition to investments and foreign exchange contracts payable, consist primarily of receivables or payables for securities purchased or sold, but not settled as of June 30, 2014.

See Note 4 for additional information related to foreign exchange contract receivables and payables.

(J) Capitalized Assets

Capital assets, fixed and intangible are capitalized at historical cost when total cost is \$25,000 or more. The cost of items like normal maintenance, repairs, and software license agreements that do not add to the value of the assets or materially extend assets' lives are not capitalized. Depreciation and amortization are calculated using straight-line method over the estimated useful life of assets exceeding one (1) year life; depreciation and amortization expenses are recognized in administrative expenses.

The following are net capitalized asset values as of June 30, 2014:

(dollars in thousands)

| Capitalized Assets | Gross Cost | Accumulated Depreciation Amortization | Net Capitalized Assets |
|--------------------|------------------|---------------------------------------|------------------------|
| Land | \$ 547 | \$ - | \$ 547 |
| Building | 2,893 | (1,433) | 1,460 |
| Equipment | 87 | (87) | - |
| Software | 15,634 | (8,438) | 7,196 |
| Total | \$ 19,161 | \$ (9,958) | \$ 9,203 |

INPRS owns and occupies the land and building at 143 W. Market Street, Indianapolis, Indiana. The building is being depreciated over 20 years.

All capitalized equipment is currently fully depreciated. No new equipment was capitalized during the current fiscal year.

INPRS just completed the process of implementing new computer systems. Amortization is computed over five (5) years when assets are placed in service. Costs for purchase and development of computer software meeting minimum cost and service life estimates are capitalized as incurred. A new retirement processing system was placed in service during fiscal year 2014.

(K) Benefits and Distributions

Pension, disability, special death benefits, and distributions of contributions and interest are recognized when due and payable to members or beneficiaries. Benefits are paid once the retirement or survivor applications have been processed and approved. Distributions of contributions and interest are distributions from inactive, non-vested members' annuity savings accounts. These distributions may be requested by members or auto-distributed by the fund when certain criteria are met.

Notes to the Financial Statements, continued June 30, 2014

(L) Due To/From Other Funds and Member Reassignments

Total Due to/from other funds represent routine transfers between funds for initial retirements and payments of shared administrative expenses as part of the agency's operations. Payments of interfund balances are funded on a routine basis between funds.

When statute allows, member reassignments occur resulting in the movement of member and employer reserves between funds due to a retiring member having service in multiple funds. Once a member selects which fund he/she wishes to retire from, creditable service covered by the other fund and the related annuity savings account (ASA) balance will be moved to the fund selected in calculating the member's retirement benefit. At the time the retirement is calculated, the fund selected sets up a receivable from the other fund for both the ASA balance and the calculated reserve for the service credit brought in from the other fund. This receivable is included as a line item in the Receivables section of Statement of Fiduciary Net Position. On the reverse side, a payable is recognized in the Liabilities section of the Statement of Fiduciary Net Position.

(M) Due To Other Governments

Total Due to Other Governments represents a liability account reflecting amounts owed by INPRS to another government (e.g., county or municipality). INPRS acts as an agent of the Pension Relief Fund.

(N) Compensated Absences

INPRS' full-time employees accumulate earned but unused vacation, sick pay, compensatory time, and personal time each pay period. Bonus vacation days are awarded upon completion of five (5), 10 and 20 years of employment with INPRS and/or the State of Indiana. Upon separation from service, employees in good standing will be paid for a maximum of 30 unused vacation leave days.

Vacation, compensatory time and personal leave are reported as part of the Salaries and Benefits Payable line in the Liabilities section of the Statement of Fiduciary Net Position. No liability is reported for unpaid accumulated sick leave since it is not probable that sick leave will be paid.

(O) Administrative, Project and Direct Investment Expenses

An annual budget for the administrative, project and direct investment expenses of INPRS is reviewed and approved by the INPRS Board of Trustees. These expenses are paid from plan assets and investment earnings.

The PERF plan pays the shared administrative, project and direct investment expenses of all the funds. At June 30, a receivable is established in the PERF plan and a payable in the other funds for the amount due to the PERF plan for the other funds' administrative expenses. The payable and receivable are settled routinely.

(P) Federal Income Tax Status

Plans administered by INPRS qualify under Section 401(a) of the Internal Revenue Code (IRC) and are exempt from federal income taxes under Section 501(a) of the IRC.

Notes to the Financial Statements, continued June 30, 2014

(Q) Reserves and Designations

The following are the legally required reserves.

1. Member Reserve – The member reserve represents member contributions made by or on behalf of the members plus any interest or earnings, less amounts distributed or transferred to the Benefits in Force reserve for retirement, disability, or other benefits. For the PERF and TRF plans, this reserve includes the members' annuity savings accounts.

2. Employer Reserve – This reserve consists of the accumulated employer contributions, plus earnings, less transfers made to the Benefits in Force reserve of the actuarial pension cost for retirement, disability, or other benefits.

3. Benefits in Force – This reserve represents the actuarially determined present value of future benefits for all members who are currently retired or disabled and survivors of members who died in service. The accumulated contributions of the members who elect to annuitize their annuity savings accounts and the actuarial pension cost are transferred to the reserve upon retirement, disability, or death.

4. Undistributed Investment Income Reserve – This reserve is credited with all investment earnings. Interest transfers are made periodically during the year to the other reserves as allowed or required by the individual funds' statutes. The transfers are at rates established by the INPRS Board of Trustees, statutes or the actual earning rates of the investment options, depending on the statutes of the individual funds. Any remaining balance (positive or negative) is transferred to the employer reserve.

The following are the balances of the reserves as of June 30, 2014:

(dollars in thousands)

| Pension Trusts Funds | Member Reserve | Employer Reserve ¹ | Benefits in Force | Undistributed Income | Total Reserves |
|----------------------------------|----------------|-------------------------------|-------------------|----------------------|----------------|
| PERF | \$ 2,860,023 | \$ 5,437,878 | \$ 5,806,387 | \$ - | \$ 14,104,288 |
| TRF Pre-1996 | 1,715,340 | - | 3,786,527 | - | 5,501,867 |
| TRF 1996 | 1,120,729 | 3,414,036 | 654,677 | - | 5,189,442 |
| 1977 Fund | 805,257 | 2,739,023 | 1,213,698 | - | 4,757,978 |
| Judges' Retirement System | 32,101 | 194,635 | 205,994 | - | 432,730 |
| EG&C Plan | 7,934 | 51,910 | 50,813 | - | 110,657 |
| PARF | 26,006 | 7,717 | 20,784 | - | 54,507 |
| Legislators' Retirement System – | | | | | |
| LEDB Plan | N/A | 660 | 2,829 | - | 3,489 |
| LEDC Plan | 29,103 | N/A | N/A | - | 29,103 |

¹The employer reserve includes \$454K of reserve monies for the unvested portion of the ASA Only Plan.

(R) New Accounting Pronouncements

The GASB has issued Statement No. 65, "Items Previously Reported as Assets and Liabilities." This Statement specifies the items that were previously reported as assets and liabilities that should now be reported as deferred outflows of resources, deferred inflows of resources, outflows of resources, or inflows of resources. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012. Management has evaluated GASB Statement No. 65 and determined the amendment does not have an impact on INPRS' financial reporting.

Notes to the Financial Statements, continued June 30, 2014

The GASB has issued Statement No. 66, *“Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62,”* to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *“Fund Balance Reporting and Governmental Fund Type Definitions,”* and No. 62, *“Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.”* The provisions of GASB Statement No. 66 are effective for financial statements for periods beginning after December 15, 2012. Management has evaluated GASB Statement No. 66 and determined the amendment does not have an impact on INPRS’ financial reporting.

The GASB has issued Statement No. 67, *“Financial Reporting for Pension Plans; an amendment of GASB Statements No. 25.”* This Statement replaces the requirements of Statements No. 25 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trust or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2013. The provisions of GASB Statement No. 67 have been implemented as INPRS’ financial statements reflect any required changes to actuarial calculations for accounting purposes, note disclosures and new schedules in the required supplementary information.

The GASB has issued Statement No. 68, *“Accounting and Financial Reporting for Pensions,”* which will improve accounting and financial reporting by State and local governments for pensions. It also improves information provided by State and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is an amendment to the requirements of Statement No. 27, *“Accounting for Pensions by State and Local Governmental Employers,”* as well as the requirements of Statement No. 50, *“Pension Disclosures,”* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of GASB Statement No. 68 are effective for financial statements for periods beginning after June 15, 2014. GASB Statement No. 68 will require employers to record their proportionate share of net pension liability, deferred outflows and inflows of resources and pension expense, more extensive note disclosures and required supplementary information. Independent schedules for employers are planned to be issued by INPRS to communicate employer’s proportionate share of net pension liability, deferred outflows and inflows of resources, and pension expense for each of the plans.

The GASB has issued Statement No. 69, *“Government Combinations and Disposals of Government Operations.”* This Statement establishes accounting and financial reporting standards for mergers, acquisitions, and transfers of operations (i.e., government combinations). The Statement also provides guidance on how to determine the gain or loss on a disposal of government operations. This Statement applies to all State and local governmental entities. The requirements of this Statement should be applied prospectively and are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. However, earlier application of the Statement is encouraged. Management is currently evaluating GASB Statement No. 69 and, if applicable, will implement it in the financial statements for fiscal year 2015.

Notes to the Financial Statements, continued June 30, 2014

The GASB has issued Statement No. 70, *"Accounting and Financial Reporting for Nonexchange Financial Guarantees."* This Statement establishes accounting and financial reporting standards for situations where a State or local government, as a guarantor, agrees to indemnify a third-party obligation holder under specified conditions (i.e., nonexchange financial guarantees). The issuer of the guaranteed obligation can be a legally separate entity or individual, including a blended or discretely presented component unit. Guidance is provided for situations where a State or local government extends or receives a nonexchange financial guarantee. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2013. Management has evaluated GASB Statement No. 70 and determined the amendment does not have an impact on INPRS' financial reporting.

The GASB has issued Statement 71, *"Pension Transition for Contributions Made Subsequent to the Measurement Date,"* which addresses the transition provisions of, and is an amendment to Statement No. 68, *"Accounting and Financial Reporting for Pensions."* The Statement eliminates a potential source of understatement of beginning net position and expense in a government's first year of implementing Statement 68. The provisions are effective simultaneously with the provisions of Statement 68, which is required to be applied in fiscal years beginning after June 15, 2014. In conjunction with GASB Statement No. 68, management is determining how best to assist employers to implement GASB Statement No. 71 in their financial statements for fiscal year 2015.

Note 3. Cash and Investments

(A) Investment Guidelines and Limitations

The Indiana General Assembly enacted the prudent investor standard to apply to the INPRS Board of Trustees and govern all its investments. Under statute (IC 5-10.3-5-3(a)) for PERF and (IC 5-10.4-3-10(a)) for TRF, the Board of Trustees must “invest its assets with the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims.” The Board of Trustees also is required to diversify such investments in accordance with the prudent investor standard.

Within these governing statutes, the INPRS Board of Trustees has broad authority to invest the assets of the plans. The INPRS Board of Trustees utilizes external investment managers, each with specific mandates to collectively achieve the investment objectives of the retirement funds. Depending on the mandate and the contractual agreement with the investment manager, investments may be managed in separate accounts, commingled accounts, mutual funds or other structures acceptable to the INPRS Board of Trustees. An asset allocation review is conducted periodically.

In October 2011, the INPRS Board of Trustees adopted a new Investment Policy Statement effective January 1, 2012, and the new strategic asset allocation for the Consolidated Defined Benefit Assets is as follows:

| Global Asset Classes | Target Allocation | Target Range |
|------------------------------------|-------------------|----------------|
| Public Equity | 22.5% | 20.0% to 25.0% |
| Private Equity | 10.0% | 7.0% to 13.0% |
| Fixed Income – Ex Inflation-Linked | 22.0% | 19.0% to 25.0% |
| Fixed Income – Inflation-Linked | 10.0% | 7.0% to 13.0% |
| Commodities | 8.0% | 6.0% to 10.0% |
| Real Estate | 7.5% | 4.0% to 11.0% |
| Absolute Return | 10.0% | 6.0% to 14.0% |
| Risk Parity | 10.0% | 5.0% to 15.0% |

Contributions and asset reallocation in the PERF, TRF Pre-1996 and TRF 1996 Annuity Savings Accounts and the Legislators’ Defined Contribution Plan (LEDC) are directed by the members in each plan and as such, the asset allocation will differ from that of the Consolidated Defined Benefit Assets.

The Pension Relief Fund (PR Fund) is invested 100 percent in a money market fund.

The State Employees’ Death Benefit Fund and the Public Safety Officers’ Special Death Benefit Fund are 100 percent invested in short-term and fixed income investments.

Notes to the Financial Statements, continued June 30, 2014

(B) Rate of Return

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the fiscal year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense is as follows:

| Pension Trust Funds ¹ | 2014 Annual Money Weighted Rate of Return |
|--|---|
| Public Employees' Retirement Fund | 12.33% |
| Teachers' Retirement Fund Pre-1996 Account ² | 12.71% |
| Teachers' Retirement Fund 1996 Account ² | 12.71% |
| 1977 Police Officers' and Firefighters' Pension and Disability Fund | 13.70% |
| Judges' Retirement System | 13.69% |
| State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan | 13.69% |
| Prosecuting Attorneys' Retirement Fund | 13.70% |
| Legislators' Defined Benefit Plan | 13.65% |
| Total INPRS³ | 12.69% |

¹Excludes the Legislators' Defined Contribution Plan

²The Teachers' Retirement Fund Accounts are combined for investment purposes

³Rate of return also includes Legislators' Defined Contribution Plan, State Employees' Death Benefit Fund, Public Safety Officers' Special Death Benefit Fund and Pension Relief Fund

(C) Cash in Bank and Deposits

Cash balances represent both operational demand deposit accounts held at the bank and, investment related cash and short-term investments, both pooled and non-pooled, on deposit with the investment custodian. To maximize investment income, the float caused by outstanding checks is invested in a short-term investment account, thus causing a possible negative book balance. Negative book balances are reflected in the liabilities section of the Statement of Fiduciary Net Position.

The table below presents the INPRS total deposits and short-term investment funds as of June 30, 2014.

(dollars in thousands)

| Cash Deposits | Total |
|--|---------------------|
| Demand Deposit Account – Bank Balances (Insured by FDIC up to \$250 thousand per financial institution) | \$ 10,050 |
| Held with Indiana Treasurer of State (Fully Insured) | 4,951 |
| Demand Deposit – Outstanding Check Float | (39,299) |
| Held with Custodian Bank (Uncollateralized) | 161,544 |
| Short Term Investment Funds held at Bank (Collateralized) | 963,462 |
| Total | \$ 1,100,708 |

Notes to the Financial Statements, continued June 30, 2014

(D) Summary of Investments Held

A summary of investments held as of June 30, 2014, exclusive of operational cash and the securities lending program which is fully disclosed in Section (I), is as follows:

(dollars in thousands)

| Investment Type ¹ | Fair Value | % of Total Investments |
|--------------------------------|----------------------|------------------------|
| <u>Short Term²</u> | | |
| Cash at Brokers | \$ 161,544 | 0.5% |
| Money Market Sweep Vehicle | 963,462 | 3.2 |
| Commercial Paper | 3,474 | - |
| U.S. Treasury Obligations | 150,803 | 0.5 |
| U.S. Agencies | 34,418 | 0.1 |
| Non-U.S. Governments | 17,162 | 0.1 |
| Total Short Term Investments | 1,330,863 | 4.4 |
| <u>Fixed Income</u> | | |
| U.S. Governments | 4,380,484 | 14.4 |
| Non-U.S. Governments | 2,474,447 | 8.1 |
| U.S. Agencies | 747,558 | 2.5 |
| Corporate Bonds | 2,898,294 | 9.5 |
| Asset-Backed Securities | 928,810 | 3.0 |
| Commingled Fixed Income Funds | 958,272 | 3.1 |
| Total Fixed Income Investments | 12,387,865 | 40.6 |
| <u>Equity</u> | | |
| Domestic Equities | 3,212,707 | 10.5 |
| International Equities | 2,860,157 | 9.4 |
| Commingled Equity Funds | 1,575,701 | 5.1 |
| Total Equity Investments | 7,648,565 | 25.0 |
| <u>Alternative Investments</u> | | |
| Private Equity | 4,802,039 | 15.7 |
| Absolute Return | 1,425,500 | 4.7 |
| Private Real Estate | 410,929 | 1.3 |
| Risk Parity | 2,496,392 | 8.2 |
| Total Alternative Investments | 9,134,860 | 29.9 |
| <u>Derivatives</u> | 27,082 | 0.1 |
| Total Investments | \$ 30,529,235 | 100.0% |

¹The amounts disclosed above will differ from the Asset Allocation Summary shown in the Investment Section. The investment type disclosure groups assets according to the security type assigned to each investment by the Custodian. The Asset Allocation summary groups assets according to the investment objective of each investment manager.

²Short Term Investments include highly liquid assets, both non-pooled and pooled, that are an integral part of the pension investments.

(E) Custodial Credit Risk

Deposits, investment securities, and collateral securities are exposed to custodial credit risk if they are uninsured and uncollateralized. Custodial credit risk is the risk that, in the event of a failure of the counterparty, INPRS will not be able

Notes to the Financial Statements, continued June 30, 2014

to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to risk if the securities are uninsured, are not registered in the name of INPRS and are held by either the counterparty or the counterparty trust department's agent, but not in INPRS' name.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution. At June 30, 2014, there were no investment or collateral securities subject to custodial credit risk and \$171,344 thousand of cash on deposit which was uninsured and uncollateralized and therefore exposed to credit risk as disclosed in Section (C).

Per IC 5-10.3-5-4(a) and IC 5-10.3-5-5 for PERF and IC 5-10.4-3-14(a) and IC 5-10.4-3-13 for TRF, securities are required to be held for the fund under custodial agreements. INPRS' custody agreement with the custodian requires that the custodian segregate the securities on the custodian's books and records from the custodian's own property. In addition, any investment manager for INPRS is not allowed, under any circumstances, to take possession, custody, title, or ownership of any managed assets.

(F) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. Duration is a measure of interest rate risk. The longer the maturity, the more the value of the fixed-income investment will fluctuate with interest rate changes. The INPRS Investment Policy Statement recognizes interest rate risk as a market risk factor that is monitored on an absolute and relative basis.

As of June 30, 2014, debt securities had the following duration information:

(dollars in thousands)

| Debt Security Type | Fair Value | % of All Debt Securities | Portfolio Weighted Average Effective Duration (Years) |
|---------------------------------|----------------------|--------------------------|---|
| Short Term Investments | | | |
| Money Market Sweep Vehicle | \$ 963,462 | 7.0% | 0.01 |
| Commercial Paper | 3,474 | 0.1 | 0.16 |
| U.S. Treasury Obligations | 150,803 | 1.1 | 0.11 |
| U.S. Agencies | 34,418 | 0.2 | 0.12 |
| Non-U.S. Government | 17,162 | 0.1 | 0.22 |
| Duration Not Available | 161,544 | 1.2 | N/A |
| Total Short Term Investments | 1,330,863 | 9.7 | |
| Fixed Income Investments | | | |
| U.S. Governments | 4,380,484 | 31.9 | 7.64 |
| Non-U.S. Government | 2,474,447 | 18.0 | 6.44 |
| U.S. Agencies | 747,558 | 5.5 | 2.77 |
| Corporate Bonds | 2,823,689 | 20.6 | 5.28 |
| Asset-Backed Securities | 899,519 | 6.6 | 1.07 |
| Duration Not Available | 1,062,168 | 7.7 | N/A |
| Total Fixed Income Investments | 12,387,865 | 90.3 | |
| Total Debt Securities | \$ 13,718,728 | 100.0% | |

The \$1,224 million, for which no duration was available, is primarily made up of cash and commingled debt funds.

Notes to the Financial Statements, continued June 30, 2014

(G) Credit Risk

The credit risk of investments is the risk that the issuer will default and not meet their obligations. The INPRS Investment Policy Statement recognizes credit (quality) risk as a market and strategic risk factor that is monitored on an absolute and relative basis.

The quality rating of investments in debt securities as described by Moody's at June 30, 2014 is as follows:

(dollars in thousands)

| Moody's Rating | Short Term Investments | Fixed Income Securities | Total | % of All Debt Securities |
|----------------------------|------------------------|-------------------------|---------------------|--------------------------|
| U.S. Government Guaranteed | \$ - | \$ 4,443,101 | \$ 4,443,101 | 32.4% |
| Aaa | 185,222 | 1,852,621 | 2,037,843 | 14.9 |
| Aa | - | 1,469,909 | 1,469,909 | 10.7 |
| A | - | 915,584 | 915,584 | 6.7 |
| Baa | - | 1,633,392 | 1,633,392 | 11.9 |
| Ba | - | 306,423 | 306,423 | 2.2 |
| B | - | 161,455 | 161,455 | 1.2 |
| Below B | - | 125,534 | 125,534 | 0.9 |
| Unrated | 1,145,641 | 1,479,846 | 2,625,487 | 19.1 |
| Total | \$ 1,330,863 | \$12,387,865 | \$13,718,728 | 100.0% |

The \$2,625 million not rated by Moody's is primarily in the following security types: cash at broker, money market sweep vehicles, asset-backed securities, commercial mortgages, CMO/Remics and commingled debt funds.

Concentration of credit risk is the risk of loss that may arise in the event of default by a single issuer. The INPRS Investment Policy Statement recognizes issuer risk as a strategic risk factor that is monitored on an absolute and relative basis.

INPRS Investment Policy Statement has placed an upper limit on the concentration of assets placed with an investment manager.

No investment manager shall manage more than 10 percent of the system's assets in actively managed portfolios at the time of funding. Through capital appreciation and additional purchases, no investment manager shall be allowed to manage in excess of 15 percent of the system's assets in actively managed portfolios without Board approval.

No investment manager shall manage more than 15 percent of the system's assets in passively managed portfolios at the time of funding. Through capital appreciation and additional purchases, no investment manager shall be allowed to manage in excess of 20 percent of the system's assets in passively managed portfolios without Board approval.

No investment manager shall manage more than 25 percent of the system's assets in a combination of actively and passively managed portfolios.

At June 30, 2014, single issuer exposure in the portfolio did not exceed 5 percent of the total net investments.

Notes to the Financial Statements, continued June 30, 2014

(H) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. INPRS' foreign currency exposure is focused primarily in international fixed income and equity holdings.

At June 30, 2014, INPRS did not have a currency hedging program at the total fund level. However, at the manager level, hedging currency risk is allowed and certain managers actively manage currency exposure. INPRS monitors currency risk at the total fund level, portfolio level, and asset class level.

INPRS has exposure to foreign currency risk at June 30, 2014 as follows:

(dollars in thousands)

Foreign Currency Held at June 30, 2014

| Currency: | Short Term | Fixed Income | Equity | Other Investments | Grand Total | % of Total |
|---------------------------------|------------------|---------------------|---------------------|---------------------|---------------------|--------------|
| Australian Dollar | \$ (240) | \$ 47,965 | \$ 61,627 | \$ (22,796) | \$ 86,556 | 0.3% |
| Brazilian Real | 189 | 53,493 | 20,386 | (3,250) | 70,818 | 0.2 |
| Canadian Dollar | 470 | 113,912 | 107,955 | (105,261) | 117,076 | 0.4 |
| Chilean Peso | - | 1,887 | - | 2,767 | 4,654 | - |
| Chinese R Yuan HK | - | - | - | 24,650 | 24,650 | 0.1 |
| Chinese Yuan Renminbi | - | - | - | (11) | (11) | - |
| Colombian Peso | 43 | 20,316 | - | (881) | 19,478 | 0.1 |
| Czech Koruna | - | - | 5,837 | - | 5,837 | - |
| Danish Krone | 66 | 15,275 | 29,440 | (3,194) | 41,587 | 0.1 |
| Dominican Rep Peso | - | 2,270 | - | - | 2,270 | - |
| Egyptian Pound | - | - | 324 | - | 324 | - |
| Euro Currency Unit | 13,441 | 1,126,815 | 653,170 | (385,168) | 1,408,258 | 4.8 |
| Hong Kong Dollar | 491 | - | 135,074 | 609 | 136,174 | 0.4 |
| Hungarian Forint | 81 | 3,257 | 2,445 | 3,282 | 9,065 | - |
| Indian Rupee | 110 | 3,571 | 38,701 | 21,500 | 63,882 | 0.2 |
| Indonesian Rupiah | 3 | 18,135 | 5,673 | 4,238 | 28,049 | 0.1 |
| Israeli Shekel | 21 | - | 2,500 | (7,752) | (5,231) | - |
| Japanese Yen | 1,682 | 231,495 | 412,522 | (79,120) | 566,579 | 1.9 |
| Malaysian Ringgit | 3,419 | 20,388 | 1,556 | 10,360 | 35,723 | 0.1 |
| Mexican Peso | 14,503 | 57,573 | 5,224 | (14,435) | 62,865 | 0.2 |
| New Taiwan Dollar | 170 | - | 62,185 | (8,010) | 54,345 | 0.2 |
| New Turkish Lira | 25 | 29,372 | 21,298 | (15,686) | 35,009 | 0.1 |
| New Zealand Dollar | 73 | 2,392 | 2,682 | (4,020) | 1,127 | - |
| Nigerian Naira | 798 | 553 | - | 1,716 | 3,067 | - |
| Norwegian Krone | 212 | 2,812 | 34,165 | 35,480 | 72,669 | 0.2 |
| Peruvian Nuevo Sol | - | 1,267 | - | 2,803 | 4,070 | - |
| Philippines Peso | 18 | 1,019 | 1,436 | 679 | 3,152 | - |
| Polish Zloty | 104 | 23,614 | 4,120 | 20,662 | 48,500 | 0.2 |
| Pound Sterling | 2,094 | 412,571 | 351,701 | (146,264) | 620,102 | 2.1 |
| Qatari Riyal | - | - | 2,197 | - | 2,197 | - |
| Romania Leu | 27 | 4,840 | - | (71) | 4,796 | - |
| Russian Ruble | 7 | 20,450 | - | 1,492 | 21,949 | 0.1 |
| S Africa Comm Rnd | 265 | 20,974 | 29,815 | 2,699 | 53,753 | 0.2 |
| Singapore Dollar | 73 | 6,539 | 32,908 | (11,832) | 27,688 | 0.1 |
| South Korean Won | 30 | (474) | 76,720 | 19,973 | 96,249 | 0.3 |
| Swedish Krona | 281 | 67,815 | 61,147 | (40,175) | 89,068 | 0.3 |
| Swiss Franc | 1,431 | 3,032 | 144,227 | (17,110) | 131,580 | 0.4 |
| Thai Baht | 136 | 11,288 | 6,456 | (3,865) | 14,015 | - |
| UAE Dirham | - | - | 1,666 | - | 1,666 | - |
| Zambia Kwacha | - | 339 | - | - | 339 | - |
| Held in Foreign Currency | \$ 40,023 | \$ 2,324,755 | \$ 2,315,157 | \$ (715,991) | \$ 3,963,944 | 13.1% |

Notes to the Financial Statements, continued June 30, 2014

The foreign currency exposure consists of unhedged assets within the investment portfolio. The short term investment, debt securities and equity securities include accruals. Other investments include foreign holdings of other investments, derivatives and receivables/payables.

(I) Securities Lending

Indiana Code 5-10.2-2-13(d) provides that the INPRS Board of Trustees may authorize a custodian bank to enter into a securities lending program agreement under which certain securities held by the custodian on behalf of INPRS may be loaned. The statute requires that collateral initially in excess of the total fair value of the loaned securities must be pledged by the borrower and must be maintained at no less than the total fair value of the loaned securities.

The purpose of such a program is to provide additional revenue for the Consolidated Defined Benefits Assets. The INPRS Investment Policy Statement requires that collateral securities and/or cash be initially pledged at 102 percent of the fair value of the securities lent for domestic securities and 105 percent for international securities. No more than 40 percent of the Consolidated Defined Benefit Assets may be lent at one time. The custodian bank and/or its securities lending sub-agents provide 100 percent indemnification of the Consolidated Defined Benefit Assets against borrower default, overnight market risk and failure to return loaned securities. Securities received as collateral cannot be pledged or sold unless the borrower defaults.

At June 30, 2014, INPRS had no credit risk exposure since the collateral value held exceeded the fair value of securities on loan.

(dollars in thousands)

Securities Lending as of June 30, 2014

| Security Type | Fair Value of Securities on Loan | Collateral Value (Securities and Cash) |
|------------------------|-------------------------------------|---|
| U.S. Governments | \$ 1,621,578 | \$ 1,667,028 |
| Corporate Bonds | 168,003 | 172,057 |
| International Bonds | 65,422 | 67,243 |
| Domestic Equities | 632,347 | 654,485 |
| International Equities | 83,079 | 90,866 |
| Total | \$ 2,570,429 | \$ 2,651,679 |

Cash collateral can be reinvested. The reinvested assets are subject to the investment guidelines specified by the INPRS Investment Policy Statement. It states that the maximum weighted average days to maturity may not exceed 60. The securities lending agent matches the maturities of the cash collateral investments with stated securities loans' termination dates. Cash collateral received for open-ended loans that can be terminated on demand are invested with varying maturities. INPRS retains the fair value risk with respect to the investment of the cash collateral.

Notes to the Financial Statements, continued June 30, 2014

The quality rating of the reinvested cash collateral investments as described by Standard and Poor's at June 30, 2014 is as follows:

(dollars in thousands)

| Standard and Poor's Rating | Commercial Paper | Repurchase Agreements | U.S. Agencies | Floating Rate Notes | Certificates of Deposit | Fair Value of Reinvested Cash Collateral | Percent of Portfolio |
|----------------------------|-------------------|-----------------------|------------------|---------------------|-------------------------|--|----------------------|
| A-1 and A-1+ | \$ 707,030 | \$ - | \$ 36,600 | \$ - | \$ 166,519 | \$ 910,149 | 42.0% |
| AA+ | - | - | - | 16,712 | - | 16,712 | 0.8 |
| AA- | - | - | - | 379,448 | - | 379,448 | 17.5 |
| A+ | - | - | - | 221,806 | - | 221,806 | 10.2 |
| A | - | - | - | 17,405 | - | 17,405 | 0.8 |
| Unrated | - | 623,472 | - | - | - | 623,472 | 28.7 |
| Total | \$ 707,030 | \$ 623,472 | \$ 36,600 | \$ 635,371 | \$ 166,519 | \$ 2,168,992 | 100.0% |

The majority of the unrated reinvested cash collateral investments consist of repurchase agreements.

(J) Repurchase Agreements

A repurchase agreement is an agreement in which INPRS transfers cash to a broker-dealer or financial institution. The broker-dealer or financial institution transfer securities to INPRS and promises to repay the cash plus interest in exchange for the same securities. Repurchase agreements are assets with the security collateral held at INPRS' custodian bank.

An obligation under reverse repurchase agreement is the same as a repurchase agreement, but from the perspective of the buyer rather than the seller. Obligations under reverse repurchase agreements are liabilities with INPRS' security collateral held at the broker dealer or financial institution's custodian bank.

Cash received and reinvested in securities are not required to match the maturities of the securities posted as collateral.

At June 30, 2014, INPRS did not have a repurchase agreement or an obligation under reverse repurchase agreement program at the total fund level. However, at the manager level, repurchase agreements and obligations under reverse repurchase agreements are allowable investments.

There were no repurchase agreements held at June 30, 2014 outside of the securities lending collateral holdings that are disclosed in (I). The amounts held at June 30, 2014 for obligations under reverse repurchase agreements, exclusive of securities lending reinvested cash collateral, are as follows:

(dollars in thousands)

| Obligations Under Reverse Repurchase Agreements by Collateral Type | Cash Collateral Posted | Fair Value |
|--|------------------------|------------|
| U.S. Treasury | \$ 225,614 | \$ 227,143 |

At June 30, 2014, INPRS had no credit risk exposure related to obligations under reverse repurchase agreements since the collateral value posted exceeded the fair value of the liability held.

Note 4. Derivative Financial Instruments

(A) Overview of Derivatives

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indices. The fair value of all derivative financial instruments is reported in the Statement of Fiduciary Net Position as either assets or liabilities, and the change in the fair value is recorded in the Statement of Changes in Fiduciary Net Position as investment income. A derivative instrument could be a contract negotiated on behalf of the Master Trust and a specific counterparty. This would typically be referred to as an "OTC contract" (Over the Counter) such as swaps and forward contracts. Alternatively, a derivative instrument, such as futures, could be listed and traded on an exchange and referred to as "exchange traded." Due to the level of risk associated with certain derivative investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term, and such changes could affect the amounts reported in the financial statements. Investments in limited partnerships may include derivatives that are not shown in the derivative total.

The derivative instruments held by INPRS are considered investments and not hedges for accounting purposes. The gains and losses arising from this activity are recognized as incurred in the Statement of Changes in Fiduciary Net Position.

All investment derivatives discussed below are included within the Investment Risk Schedules, which precede this section. Investment derivative instruments are disclosed separately to provide a comprehensive and distinct view of this activity and its impact on the overall investment portfolio. INPRS holds investments in limited partnership and commingled investment funds, which may utilize derivatives from time to time for hedging purposes, and any derivatives held by these types of investment vehicles are not included in the information describing the INPRS' derivatives.

Futures

A futures contract is an agreement between two parties to buy and sell a financial instrument at a set price on a future date.

INPRS' investment managers use financial futures to replicate an underlying security or index they intend to hold or sell in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security. Additionally, INPRS' investment managers use futures contracts to adjust the portfolio risk exposure. Futures contracts may be used for the purpose of investing cash flows or modifying duration, but in no event may leverage be created by any individual security or combination of securities. No short sales of equity securities or equity index derivatives are permitted.

As the fair value of the futures contract varies from the original contract price, a gain or loss is recognized and paid to, or received from, the clearinghouse. The cash or securities to fulfill these obligations are held in the investment portfolio.

Options

Options are agreements that give the owner of the option the right, but not obligation, to buy (in the case of a call) or to sell (in the case of a put) a specific amount of an asset for a specific price on or before a specified expiration date.

Notes to the Financial Statements, continued June 30, 2014

The purchaser of put options pays a premium at the outset of the agreement and stands to gain from an unfavorable change (i.e., a decrease) in the price of the instrument underlying the option. The writer of a call option receives a premium at the outset of the agreement and bears the risk of an unfavorable change (i.e., an increase) in the price of the instrument underlying the option. An interest rate swaption is the option to enter into an interest rate swap based off a set of predetermined conditions.

Options are generally used to manage interest rate risk, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation. The fair value of exchange-traded options is determined based upon quoted market prices.

The fair value of over the counter options is determined by external pricing services, using various proprietary methods, based upon the type of option.

Swaps

Interest rate swaps are derivative instruments in which one party exchanges a stream of fixed interest rate cash flows for floating interest rate cash flows. A notional amount of principal is required to compute the actual cash amounts and is determined at the inception of the contract.

Interest rate swaps are generally used to manage interest rate risk, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation. The fair value is determined by external pricing services using various proprietary methods.

An inflation swap is a derivative used to transfer inflation risk from one party to another through an exchange of cash flows. In an inflation swap, one party pays a fixed rate on a notional principal amount, while the other party pays a floating rate linked to an inflation index, such as the Consumer Price Index (CPI) or an inflation bond.

Credit default swap agreements involve one party (referred to as the buyer of protection) making a stream of payments to another party (the seller of protection) in exchange for the right to receive a specified return in the event of a default or other predetermined credit event for the referenced entity, obligation or index.

Credit default swaps are used to achieve the desired credit exposure of a security or basket of securities. One of the main advantages of a credit default swap is it allows for exposure to credit risk while limiting exposure to other risks, such as interest rate and currency risk. The fair value is determined by external pricing services using various proprietary methods.

Forwards

A forward currency exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. A contract is classified as a forward contract when the settlement date is more than two days after the trade date. Risks associated with such contracts include movement in the value of a foreign currency relative to the U.S. dollar. The contracts are valued at forward exchange rates and include net appreciation / depreciation in the Statement of Fiduciary Net Position. Realized gains or losses on forward currency contracts is the difference between the original contract and the closing value of such contract and is included in the Statement of Changes in Fiduciary Net Position.

Notes to the Financial Statements, continued June 30, 2014

The Fund enters into foreign currency forwards to manage exposure to fluctuations in foreign currency exchange rates on portfolio holdings and to settle future obligations.

(B) Derivative Contracts

The table below summarizes INPRS' derivative contracts for the year ended June 30, 2014:

(dollars in thousands)

| Investment Derivatives | Change in Fair Value | Fair Value | Notional |
|--|----------------------|------------------|---------------------|
| Futures: | | | |
| Index Futures – Long | \$ 13,719 | \$ 13,719 | \$ 624,486 |
| Commodity Futures – Long | 25,474 | 25,474 | 1,277,538 |
| Fixed Income Futures – Long | 1,212 | 1,212 | 443,391 |
| Fixed Income Futures – Short | (699) | (699) | (572,292) |
| Foreign Currency Futures – Long | 29 | 29 | 38,388 |
| Foreign Currency Futures – Short | (435) | (435) | (383,873) |
| Total Futures | 39,300 | 39,300 | 1,427,638 |
| Options: | | | |
| Currency Spot Options Bought | (147) | 796 | 59,840 |
| Currency Spot Options Written | 184 | (986) | 84,349 |
| Interest Rate Options Bought | (986) | 6,372 | 333,220 |
| Interest Rate Options Written | 649 | (1,326) | 144,320 |
| Fixed Income Options Bought | (140) | 36 | 36 |
| Fixed Income Options Written | 121 | (18) | (18) |
| Foreign Currency Options Bought | (113) | 66 | 160 |
| Foreign Currency Options Written | 79 | (5) | (5) |
| Credit Default Single Issuer Swaptions Written | 23 | (60) | 97,800 |
| Credit Default Index Swaptions Written | 21 | (17) | 22,700 |
| Inflation Rate Swaptions Bought | (8) | 7 | 6,955 |
| Total Options | (317) | 4,865 | 749,357 |
| Swaps: | | | |
| Interest Rate Swaps – Pay Fixed Receive Variable | (14,747) | (26,533) | 937,072 |
| Interest Rate Swaps – Pay Variable Receive Fixed | 12,700 | 5,310 | 1,014,556 |
| Forward Volatility Agreement Straddle | (29) | 268 | 2,600 |
| Currency Swaps | 24 | 27 | 13,102 |
| Credit Default Swaps Single Name – Buy Protection | (1,237) | 404 | 72,062 |
| Credit Default Swaps Single Name – Sell Protection | 936 | 1,130 | 50,900 |
| Credit Default Swaps Index – Buy Protection | (816) | 1,432 | 32,916 |
| Credit Default Swaps Index – Sell Protection | 290 | 879 | 45,555 |
| Total Swaps | (2,879) | (17,083) | 2,168,763 |
| Total Derivatives | \$ 36,104 | \$ 27,082 | \$ 4,345,758 |

Notes to the Financial Statements, continued June 30, 2014

The table below summarizes the swap maturity profile as of June 30, 2014.

(dollars in thousands)

| Swap Type | Swap Maturity Profile at June 30, 2014 | | | | | |
|--|--|-----------------|--------------------|-------------------|-------------------|--------------------|
| | < 1 yr | 1-5 yrs | 5-10 yrs | 10-20 yrs | 20+ yrs | Total |
| Interest Rate Swaps – Pay Fixed Receive Variable | \$ - | \$ (1,841) | \$ (12,345) | \$ (7,861) | \$ (4,486) | \$ (26,533) |
| Interest Rate Swaps – Pay Variable Receive Fixed | - | 6,372 | (1,370) | 308 | - | 5,310 |
| Forward Volatility Agreement Straddle | 268 | - | - | - | - | 268 |
| Currency Swaps | - | 29 | (2) | - | - | 27 |
| Credit Default Swaps Single Name – Buy Protection | - | (1,004) | 774 | - | 634 | 404 |
| Credit Default Swaps Single Name – Sell Protection | - | 1,251 | (121) | - | - | 1,130 |
| Credit Default Swaps Index – Buy Protection | - | (181) | - | - | 1,613 | 1,432 |
| Credit Default Swaps Index – Sell Protection | - | 879 | - | - | - | 879 |
| Total Swap Fair Value | \$ 268 | \$ 5,505 | \$ (13,064) | \$ (7,553) | \$ (2,239) | \$ (17,083) |

(C) Credit Risk

Counterparty credit risk exists on all open OTC positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract.

INPRS' investment managers use International Swaps and Derivative Association Master Agreements to further reduce counterparty risk by specifying credit protection mechanisms and providing standardization that improves legal certainty, thereby reducing the probability of unforeseen losses. Furthermore, the master agreements can provide additional credit protection through the requirement of collateral exchange and certain event of default and mutual termination provisions. Securities eligible as collateral are typically United States government bills and U.S. dollar cash.

The maximum amount of loss due to credit risk that the Fund would incur if the counterparty to the derivative instrument failed to perform according to the terms of the contract, without respect to any collateral or other security, or netting arrangements, is the total unrealized gain of derivatives at the end of the reporting period. The aggregate fair value of investment derivative instruments in an unrealized gain position at June 30, 2014, was \$33,677 thousand, of which \$31,587 thousand was uncollateralized.

The table below summarizes the counterparty positions as of June 30, 2014:

(dollars in thousands)

| Swaps Counterparty | S&P Rating | Fair Value | | Collateral | | |
|-------------------------------|------------|----------------------------|---------------------------|--------------------|-----------------|--------------------|
| | | Receivable Unrealized Gain | Payable (Unrealized Loss) | Total Fair Value | Posted | Received |
| Bank of America | A- | \$ 259 | \$ (225) | \$ (101) | \$ 360 | \$ (1,160) |
| Barclays | A- | 181 | (197) | (197) | 200 | - |
| Citibank | A- | 895 | (2,011) | 2,176 | 877 | (3,167) |
| CME Central | AA- | 30,181 | (28,927) | (18,286) | - | - |
| Credit Suisse | A- | 20 | (59) | (4) | 50 | (72) |
| Deutsche Bank | A | 167 | (1,141) | (944) | - | (4,449) |
| Goldman Sachs | A- | 826 | (1,353) | 885 | 510 | (570) |
| HSBC Securities Inc. | A+ | 4 | (132) | (132) | - | - |
| IntercontinentalExchange Inc. | A | 417 | (348) | 273 | - | - |
| JPMorgan Chase Bank | A | 108 | (334) | (262) | - | (530) |
| London Clearing House | A- | 530 | (935) | (651) | - | - |
| Royal Bank of Canada (RBC) | AA- | 17 | (2) | (2) | 1,600 | - |
| UBS | A | 72 | - | 92 | 20 | (810) |
| Total | | \$ 33,677 | \$ (35,664) | \$ (17,153) | \$ 3,617 | \$ (10,758) |

Notes to the Financial Statements, continued June 30, 2014

(D) Interest Rate Risk

The System has exposure to interest rate risk due to investments in interest rate and inflation swaps and TBAs. The required risk disclosures are included in the Interest Rate Risk schedule in Note 3.

The table below summarizes INPRS' Investments that are highly sensitive to interest rate changes:

(dollars in thousands)

Derivative Instruments Highly Sensitive to Interest Rate Changes

| Reference Currency | Pays | Receives | Fair Value | Notional |
|--|------------------------|------------------------|--------------------|---------------------|
| Interest Rate Swap- Pay Fixed Receive Variable: | | | | |
| U.S Dollar | 0.0265% to 4.37% | 3M USD LIBOR | \$ (13,623) | \$ 630,430 |
| Euro Currency Unit | 1.50 % to 3.25% | 6M EURIBOR REUTERS | (5,130) | 63,967 |
| Pound Sterling | 1.00% to 3.75% | 6M GBP LIBOR BBA | (52) | 27,888 |
| Chilean Peso | 3.85% to 5.36% | 6M CLP CLICP BLOOMBERG | (71) | 5,784 |
| Australian Dollar | 3.75% to 5.50% | 6M AUD BBR BBSW | (6,392) | 101,851 |
| Polish Zloty | 3.76% to 4.20% | 6M WIBOR WIBO | (89) | 1,874 |
| Japanese Yen | 0.75% to 1.65% | 6M JPY LIBOR BBA | (165) | 59,184 |
| Swiss Franc | 2.50% | 3M CHF LIBOR BBA | (254) | 5,864 |
| Malaysian Ringgit | 0.00% to 4.49% | 3M MYR KLIBOR BNM | (4) | 4,893 |
| South Korean Won | 3.00% to 3.63% | 3M KRW KWDC COD | (491) | 19,744 |
| Norwegian Krone | 4.00% | 6M NOK NIBOR BBG | (95) | 2,752 |
| Swedish Krona | 1.75% | 3M SEK STIBOR SIDE | (179) | 10,952 |
| South African Rand | 8.55% | 3M ZAE JIBAR SAFEX | (5) | 178 |
| Colombian Peso | 2.11% to 5.92% | COP DTF90 RATE | 10 | 785 |
| Colombian Peso | 5.19% to 5.35% | 1D COP COOVIBR | 7 | 926 |
| | | | \$ (26,533) | \$ 937,072 |
| Interest Rate Swap- Pay Variable Receive Fixed: | | | | |
| U.S Dollar | 3M USD LIBOR | 1.00% to 4.50% | \$ (1,682) | \$ 170,480 |
| Brazilian Real | 1D BRL CDI | 8.86% to 10.37% | (823) | 28,683 |
| South African Rand | 3M ZAE JIBAR SAFEX | 6.15% to 8.52% | (457) | 13,343 |
| Australian Dollar | 6M AUD BBR BBSW | 3.5% to 4.50% | 7,576 | 644,574 |
| Euro Currency Unit | 6M EURIBOR REUTERS | 1.50% | 459 | 11,720 |
| Japanese Yen | 6M JPY LIBOR BBA | 1.25% to 1.88% | 274 | 37,475 |
| Canadian Dollar | 3M CAD BA CDOR | 2.75% to 4.00% | 143 | 15,096 |
| Pound Sterling | 6M GBP LIBOR BBA | 2.25% to 3.75% | (26) | 43,362 |
| New Zealand Dollar | 3M NZD BBR FRA | 4.50% to 5.00% | (86) | 15,804 |
| Swedish Krona | 3M SEK STIBOR SIDE | 2.50% | 71 | 2,019 |
| Chilean Peso | 6M CLP CLICP BLOOMBERG | 4.61% | (6) | 281 |
| South Korean Won | 3M KRW KWDC COD | 2.85% to 2.89% | 17 | 3,041 |
| Mexican Peso | 1M MXN TIIE BANXICO | 6.81% to 6.83% | 18 | 10,620 |
| Brazilian Real | ZCS BZDIOVRA | 11.68% | (168) | 18,057 |
| | | | \$ 5,310 | \$ 1,014,555 |

Notes to the Financial Statements, continued June 30, 2014

(E) Foreign Currency Risk

The Fund is exposed to foreign currency risk on its foreign currency forward contracts and futures contracts. The required risk disclosures are included in the Foreign Currency Risk schedule in Note 3.

At June 30, 2014, INPRS' investments included the following currency forwards balances:

(dollars in thousands)

| | |
|--------------------------------------|--------------|
| Foreign Currency Contract Receivable | \$ 4,027,199 |
| Foreign Currency Contract Payable | (4,046,822) |

The aggregate realized gain/loss recognized for the year ended June 30, 2014 due to foreign currency transactions was a \$71,413 thousand realized loss.

Note 5. Long Term Commitments for Alternative Investments

INPRS enters into long-term commitments for funding other investments in private equity and private real estate. These amounts include Euro currency, Norwegian Krone and British Pound Sterling denominated commitments to limited liability partnerships. The remaining amount of unfunded commitments, converted to U.S. dollars using the closing exchange rate, as of June 30, 2014, is as follows:

(dollars in thousands)

| Currency | Total Unfunded Commitments |
|--------------------------|----------------------------|
| U.S. Dollar | \$ 2,010,868 |
| Euro Currency Unit | 156,072 |
| Norwegian Krone | 6,108 |
| British Pound Sterling | 1,696 |
| Total Commitments | \$ 2,174,744 |

Note 6. Risk Management

INPRS is exposed to various risks that could lead to loss and disruption to its operations, including damage to property owned by INPRS; personal injury or property damage liabilities; errors, omissions and theft by employees; certain employee death benefits, employee health benefits and unemployment and worker's compensation costs for INPRS employees; and breach of fiduciary responsibility.

For risks related to physical loss and liability, employee benefits and fiduciary responsibility, INPRS purchases commercial insurance for property, general liability, employee crime, employee health and unemployment, and fiduciary responsibility. INPRS records expenses for losses, if any, as the liabilities are incurred or replacement items are purchased.

Notes to the Financial Statements, continued June 30, 2014

Note 7. Contingent Liabilities

INPRS participates in lawsuits that, in management's opinion, will not have a material effect on the financial statements.

Note 8. Net Pension Liability and Actuarial Information – Defined Benefit Plans

The components of the net pension liability of each defined benefit retirement plan as of June 30, 2014:

(dollars in thousands)

| Pre-Funded Defined Benefit Pension Trust Funds | Total Pension Liability (a) | Fiduciary Net Position (b) | Net Pension Liability (Surplus) (a) - (b) | Fiduciary Net Position as a Percent of Total Pension Liability (b) / (a) |
|---|--------------------------------|-------------------------------|---|---|
| PERF | \$ 16,732,223 | \$ 14,104,288 | \$ 2,627,935 | 84.3% |
| TRF 1996 Account | 5,236,993 | 5,189,442 | 47,551 | 99.1 |
| 1977 Fund | 4,706,998 | 4,757,978 | (50,980) | 101.1 |
| JRS | 464,855 | 432,730 | 32,125 | 93.1 |
| EG&C Plan | 123,601 | 110,657 | 12,944 | 89.5 |
| PARF | 65,336 | 54,507 | 10,829 | 83.4 |
| LEDB Plan | 4,166 | 3,489 | 677 | 83.7 |
| Pay-As-You-Go Defined Benefit Pension Trust Fund | | | | |
| TRF Pre-1996 Account | \$ 16,355,216 | \$ 5,501,867 | \$ 10,853,349 | 33.6% |

The total pension liability is determined by our actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

The accompanying Schedule of Contributions in the Required Supplementary Information presents trend information about the amounts contributed to the plan by employers and a nonemployer contributing entity in comparison to the Actuarially Determined Contribution (ADC). The ADC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost for each year and the amortization of any unfunded actuarial accrued liability (or funding excess) over 30 years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for

Notes to the Financial Statements, continued June 30, 2014

financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination. Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuations are presented below:

| Description | PERF | TRF Pre-1996 Account | TRF 1996 Account | 1977 Fund | JRS | EG&C Plan | PARF | LEDB Plan |
|--|---|---------------------------------------|------------------------|---------------------------------------|------|-----------|------|--------------|
| Valuation Date: | | | | | | | | |
| Assets | June 30, 2014 | | | | | | | |
| Liabilities | June 30, 2013 – Member census data as of June 30, 2013 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2013 and June 30, 2014. Standard actuarial roll forward techniques were then used to project the total pension liability computed as of June 30, 2013 to June 30, 2014. | | | | | | | |
| Actuarial Cost Method | Entry Age Normal (Level Percent of Payroll) | | | | | | | |
| Actuarial Assumptions: | | | | | | | | |
| Experience Study Date | Period of 5 years ended June 30, 2010 | Period of 4 years ended June 30, 2011 | | Period of 5 years ended June 30, 2010 | | | | |
| Investment Rate of Return | 6.75%, net of investment expense, including inflation | | | | | | | |
| Cost of Living Increases (COLA) or “Ad Hoc” COLA (see Note 1.) | 1.0% | 1.0% | 1.0% | 2.25% | 4.0% | 1.0% | N/A | 1.0% |
| Future Salary Increases, including Inflation | 3.25% – 4.5% | 3.0% – 12.5% | | 3.25% | 4.0% | 3.25% | 4.0% | 3.0% |
| Inflation | 3.0% | | | | | | | |

The long-term return expectation for the INPRS defined benefit retirement plans has been determined by using a building-block approach and assumes a time horizon, as defined in the INPRS Investment Policy Statement. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

| Target Asset Allocation | Geometric Basis | |
|------------------------------------|---|------|
| | Long-Term Expected Real Rate of Return | |
| Public Equity | 22.5% | 6.0% |
| Private Equity | 10.0% | 7.7% |
| Fixed Income – Ex Inflation-Linked | 22.0% | 2.1% |
| Fixed Income – Inflation-Linked | 10.0% | 0.5% |
| Commodities | 8.0% | 2.5% |
| Real Estate | 7.5% | 3.9% |
| Absolute Return | 10.0% | 1.8% |
| Risk Parity | 10.0% | 4.3% |

Notes to the Financial Statements, continued June 30, 2014

Total pension liability for each defined benefit pension plan was calculated using the discount rate of 6.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and where applicable from the members, would at the minimum be made at the actuarially determined required rates computed in accordance with the current funding policy adopted by the Board, and contributions required by the State of Indiana (the non-employer contributing entity) would be made as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (6.75 percent). Based on those assumptions, each defined benefit pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability for each plan.

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability of each defined benefit pension plan calculated using the discount rate of 6.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%), or one percentage point higher (7.75%) than the current rate:

(dollars in thousands)

| Pre-Funded Defined Benefit Pension Trust Funds | 1% Decrease (5.75%) | Current Discount Rate (6.75%) | 1% Increase (7.75%) |
|---|--------------------------------|--|--------------------------------|
| PERF | \$ 4,218,734 | \$ 2,627,935 | \$ 1,280,117 |
| TRF 1996 Account | 782,000 | 47,551 | (561,000) |
| 1977 Fund | 691,739 | (50,980) | (679,715) |
| JRS | 85,443 | 32,125 | (14,742) |
| EG&C Plan | 28,722 | 12,944 | (749) |
| PARF | 18,219 | 10,829 | 4,341 |
| LEDB Plan | 964 | 677 | 414 |
| Pay-As-You-Go Defined Benefit Pension Trust Fund | | | |
| TRF Pre-1996 Account | \$ 12,327,000 | \$ 10,853,349 | \$ 9,579,000 |

Note 9. Subsequent Events

Financial Statement Events

Events or transactions that were known prior to the date the financial statements were issued, that provided additional evidence about conditions that existed at June 30, 2014, were not material to the financial statements and were not recognized in the financial statements for the year ended June 30, 2014.

Events or transactions that were known prior to the date the financial statements were issued, that provided additional evidence about conditions that did not exist at June 30, 2014, were not material to the financial statements and were not disclosed in the financial statements for the year ended June 30, 2014.

Notes to the Financial Statements, continued June 30, 2014

Legislative Changes

Below is a summary of significant legislative changes that are effective July 1, 2014. These changes have been reflected in the actuarial valuations as of June 30, 2014.

Public Employees' Retirement Fund

- PERF members, beneficiaries, and survivors received a one-time check, based on years of service, in September 2014. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2013, and who was entitled to receive a monthly benefit on July 1, 2014.

Teachers' Retirement Fund – TRF Pre-1996 Account

- TRF members, beneficiaries, and survivors received a one-time check, based on years of service, in September 2014. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2013, and who was entitled to receive a monthly benefit on July 1, 2014.

Teachers' Retirement Fund – TRF 1996 Account

- TRF members, beneficiaries, and survivors received a one-time check, based on years of service, in September 2014. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2013, and who was entitled to receive a monthly benefit on July 1, 2014.

1977 Police Officers' and Firefighters' Pension and Disability Fund

- A 1.4 percent COLA was approved for eligible participants effective July 1, 2014, in accordance with IC 36-8-8-15.

State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan

- EG&C Plan members, beneficiaries, and survivors received a one-time check, based on years of service, in September 2014. The amount of the one-time check ranged from \$125 to \$400, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2013, and who was entitled to receive a monthly benefit on July 1, 2014.

PERF and TRF Annuities

- Provide that INPRS keeps the annuity program in-house until January 1, 2017.
- Provides that between October 1, 2014 and September 30, 2015, the Board shall provide annuities to retiring and retired PERF and TRF members at a 5.75% interest rate. Between October 1, 2015 and December 31, 2016, the interest rate will be the greater of the market rate or 4.5%. After December 31, 2016, whenever the Board enters into an agreement with a third party provider, the interest rate will be the market rate.

Note 10. Required Supplementary Information and Other Supplementary Schedules

The historical trend information is designed to provide decision-usefulness of the financial reports, improved value for assessing accountability and greater transparency related to measures of net pension liabilities impacting INPRS. The Schedules of Changes in Net Pension Liability and Net Pension Liability, Schedule of Contributions, and Schedule of Investment Returns are included immediately following the Notes to the Financial Statements. Other Supplementary Schedules (i.e., Schedule of Administrative and Project Expenses; Schedule of Administrative Contractual and Professional Services Expenses, Schedule of Project Expenses, Schedule of Investment Expenses; Schedule of Project Contractual and Professional Services Expenses) are presented for the purpose of additional analysis and are not a required part of the Financial Statements.

Required Supplementary Information

Schedules of Changes in Net Pension Liability and Net Pension Liability¹ Public Employees' Retirement Fund Fiscal Year Ended June 30

(dollars in thousands)

| | 2014 | 2013 |
|---|----------------------|----------------------|
| Total Pension Liability | | |
| Total Pension Liability – Beginning of Year | \$ 16,145,681 | \$ 15,784,240 |
| Annuity Savings Account (ASA) – Beginning of Year | 2,796,103 | 2,749,449 |
| Excluding ASA – Beginning of Year | 13,349,578 | 13,034,791 |
| Service Cost | 258,070 | 270,974 |
| Interest Cost | 895,454 | 875,616 |
| Experience (Gains) / Losses | (15,161) | (104,471) |
| Assumption Changes | - | - |
| Plan Amendments | (42,985) | (167,486) |
| Benefit Payments ² | (680,203) | (662,283) |
| ASA Annuity Payments | 119,094 | 107,520 |
| Net Member Reassignment ³ | (3,125) | (5,083) |
| Other | - | - |
| Net Change in Total Pension Liability – Excluding ASA | 531,144 | 314,787 |
| Net Change in Total Pension Liability – ASA | 55,398 | 46,654 |
| Net Change in Total Pension Liability | 586,542 | 361,441 |
| Total Pension Liability – Excluding ASA – End of Year | 13,880,722 | 13,349,578 |
| Total Pension Liability – ASA – End of Year | 2,851,501 | 2,796,103 |
| Total Pension Liability – End of Year | \$ 16,732,223 | \$ 16,145,681 |
| Fiduciary Net Position | | |
| Fiduciary Net Position – Beginning of Year | \$ 12,720,601 | \$ 12,243,755 |
| Employer Contributions | 526,090 | 455,658 |
| Member Contributions | 164,189 | 156,408 |
| Net Investment Income | 1,553,393 | 691,332 |
| Benefit Payments ⁴ | (828,358) | (791,360) |
| Net Member Reassignment ⁵ | (4,246) | (6,042) |
| Administrative and Project Expenses | (27,433) | (29,181) |
| Other | 52 | 31 |
| Net Change in Fiduciary Net Position | 1,383,687 | 476,846 |
| Fiduciary Net Position – End of Year | \$ 14,104,288 | \$ 12,720,601 |
| Net Pension Liability | | |
| Total Pension Liability | \$ 16,732,223 | \$ 16,145,681 |
| Plan Fiduciary Net Position | 14,104,288 | 12,720,601 |
| Net Pension Liability | \$ 2,627,935 | \$ 3,425,080 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 84.3% | 78.8% |
| Covered-Employee Payroll (Actual) ⁶ | \$ 4,896,635 | \$ 4,700,000 |
| Net Pension Liability as a Percentage of Covered-Employee Payroll | 53.7% | 72.9% |

¹The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2012 for GASB Statement No. 67 purposes.

²Excludes ASA lump sum payments to retired members or refunds of accumulated member contributions associated with ASA balances.

³Includes net interfund transfers, except for interfund transfers of ASA balances.

⁴Includes ASA lump sum payments to retired members and refunds of employee contributions associated with ASA balances.

⁵Includes net interfund transfers.

⁶2013 covered-employee payroll was adjusted to reflect actual contribution rates.

Required Supplementary Information, continued

Schedules of Changes in Net Pension Liability and Net Pension Liability¹ Teachers' Retirement Fund Pre-1996 Account Fiscal Year Ended June 30

(dollars in thousands)

| | 2014 | 2013 |
|---|----------------------|----------------------|
| Total Pension Liability | | |
| Total Pension Liability – Beginning of Year | \$ 16,463,598 | \$ 16,522,015 |
| Annuity Savings Account (ASA) – Beginning of Year | 1,814,049 | 1,974,076 |
| Excluding ASA - Beginning of Year | 14,649,549 | 14,547,939 |
| Service Cost | 68,860 | 81,343 |
| Interest Cost | 961,628 | 957,228 |
| Experience (Gains) / Losses | (70,517) | (40,719) |
| Assumption Changes | - | - |
| Plan Amendments | (25,524) | - |
| Benefit Payments ² | (1,034,563) | (988,335) |
| ASA Annuitizations | 93,982 | 86,941 |
| Net Member Reassignment ³ | (3,802) | - |
| Other | 263 | 5,152 |
| Net Change in Total Pension Liability – Excluding ASA | (9,673) | 101,610 |
| Net Change in Total Pension Liability – ASA | (98,709) | (160,027) |
| Net Change in Total Pension Liability | (108,382) | (58,417) |
| Total Pension Liability – Excluding ASA – End of Year | 14,639,876 | 14,649,549 |
| Total Pension Liability – ASA – End of Year | 1,715,340 | 1,814,049 |
| Total Pension Liability – End of Year | \$ 16,355,216 | \$ 16,463,598 |
| Fiduciary Net Position | | |
| Fiduciary Net Position – Beginning of Year | \$ 5,215,202 | \$ 5,058,910 |
| Employer Contributions | 6,325 | 9,484 |
| Non-Employer Contributing Entity Contributions | 825,617 | 1,003,596 |
| Member Contributions | 47,028 | 45,421 |
| Net Investment Income | 647,581 | 315,598 |
| Benefit Payments ⁴ | (1,229,301) | (1,212,945) |
| Net Member Reassignment ⁵ | (3,594) | 3,059 |
| Administrative and Project Expenses | (7,010) | (7,926) |
| Other | 19 | 5 |
| Net Change in Fiduciary Net Position | 286,665 | 156,292 |
| Fiduciary Net Position – End of Year | \$ 5,501,867 | \$ 5,215,202 |
| Net Pension Liability | | |
| Total Pension Liability | \$ 16,355,216 | \$ 16,463,598 |
| Plan Fiduciary Net Position | 5,501,867 | 5,215,202 |
| Net Pension Liability | \$ 10,853,349 | \$ 11,248,396 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 33.6% | 31.7% |
| Covered-Employee Payroll (Actual) ⁶ | \$ 1,262,828 | \$ 1,383,428 |
| Net Pension Liability as a Percentage of Covered-Employee Payroll | 859.4% | 813.1% |

¹The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2012 for GASB Statement No. 67 purposes.

²Excludes ASA lump sum payments to retired members or refunds of accumulated member contributions associated with ASA balances.

³Includes net interfund transfers, except for interfund transfers of ASA balances.

⁴Includes ASA lump sum payments to retired members and refunds of employee contributions associated with ASA balances.

⁵Includes net interfund transfers.

⁶2013 represents anticipated covered-employee payroll.

Required Supplementary Information, continued

Schedules of Changes in Net Pension Liability and Net Pension Liability¹ Teachers' Retirement Fund 1996 Account Fiscal Year Ended June 30

(dollars in thousands)

| | 2014 | 2013 |
|---|---------------------|---------------------|
| Total Pension Liability | | |
| Total Pension Liability – Beginning of Year | \$ 4,748,149 | \$ 4,338,309 |
| Annuity Savings Account (ASA) – Beginning of Year | 990,705 | 899,339 |
| Excluding ASA – Beginning of Year | 3,757,444 | 3,438,970 |
| Service Cost | 155,314 | 147,337 |
| Interest Cost | 262,263 | 240,282 |
| Experience (Gains) / Losses | 504 | (15,995) |
| Assumption Changes | - | - |
| Plan Amendments | (4,504) | - |
| Benefit Payments ² | (77,253) | (68,793) |
| ASA Annuitizations | 15,151 | 11,621 |
| Net Member Reassignment ³ | 6,922 | - |
| Other | 423 | 4,022 |
| Net Change in Total Pension Liability – Excluding ASA | 358,820 | 318,474 |
| Net Change in Total Pension Liability – ASA | 130,024 | 91,366 |
| Net Change in Total Pension Liability | 488,844 | 409,840 |
| Total Pension Liability – Excluding ASA – End of Year | 4,116,264 | 3,757,444 |
| Total Pension Liability – ASA – End of Year | 1,120,729 | 990,705 |
| Total Pension Liability – End of Year | \$ 5,236,993 | \$ 4,748,149 |
| Fiduciary Net Position | | |
| Fiduciary Net Position – Beginning of Year | \$ 4,433,677 | \$ 4,018,149 |
| Employer Contributions | 194,751 | 180,714 |
| Member Contributions | 81,802 | 77,532 |
| Net Investment Income | 586,782 | 258,111 |
| Benefit Payments ⁴ | (108,720) | (97,157) |
| Net Member Reassignment ⁵ | 7,836 | 2,806 |
| Administrative and Project Expenses | (6,707) | (6,482) |
| Other | 21 | 4 |
| Net Change in Fiduciary Net Position | 755,765 | 415,528 |
| Fiduciary Net Position – End of Year | \$ 5,189,442 | \$ 4,433,677 |
| Net Pension Liability | | |
| Total Pension Liability | \$ 5,236,993 | \$ 4,748,149 |
| Plan Fiduciary Net Position | 5,189,442 | 4,433,677 |
| Net Pension Liability | \$ 47,551 | \$ 314,472 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 99.1% | 93.4% |
| Covered-Employee Payroll (Actual) | \$ 2,598,115 | \$ 2,442,496 |
| Net Pension Liability as a Percentage of Covered-Employee Payroll | 1.8% | 12.9% |

¹The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2012 for GASB Statement No. 67 purposes.

²Excludes ASA lump sum payments to retired members or refunds of accumulated member contributions associated with ASA balances.

³Includes net interfund transfers, except for interfund transfers of ASA balances.

⁴Includes ASA lump sum payments to retired members and refunds of employee contributions associated with ASA balances.

⁵Includes net interfund transfers.

Required Supplementary Information, continued

Schedules of Changes in Net Pension Liability and Net Pension Liability¹ 1977 Police Officers' and Firefighters' Pension and Disability Fund Fiscal Year Ended June 30

(dollars in thousands)

| | 2014 | 2013 |
|---|---------------------|---------------------|
| Total Pension Liability | | |
| Total Pension Liability – Beginning of Year | \$ 4,392,947 | \$ 4,122,436 |
| Service Cost | 133,075 | 130,912 |
| Interest Cost | 301,824 | 283,733 |
| Experience (Gains) / Losses | (11,754) | (39,592) |
| Assumption Changes | - | (4,810) |
| Plan Amendments | - | - |
| Benefit Payments ² | (109,094) | (99,803) |
| Net Member Reassignment ³ | - | 71 |
| Other | - | - |
| Net Change in Total Pension Liability | 314,051 | 270,511 |
| Total Pension Liability – End of Year | \$ 4,706,998 | \$ 4,392,947 |
| Plan Fiduciary Net Position | | |
| Plan Fiduciary Net Position – Beginning of Year | \$ 4,116,861 | \$ 3,817,013 |
| Employer Contributions | 140,119 | 137,111 |
| Member Contributions | 41,791 | 40,786 |
| Net Investment Income | 570,058 | 223,510 |
| Benefit Payments ² | (109,094) | (99,803) |
| Net Member Reassignment ³ | - | 71 |
| Administrative and Project Expenses | (1,787) | (1,845) |
| Other | 30 | 18 |
| Net Change in Plan Fiduciary Net Position | 641,117 | 299,848 |
| Plan Fiduciary Net Position – End of Year | \$ 4,757,978 | \$ 4,116,861 |
| Net Pension Liability | | |
| Total Pension Liability | \$ 4,706,998 | \$ 4,392,947 |
| Plan Fiduciary Net Position | 4,757,978 | 4,116,861 |
| Plan Net Pension Liability | \$ (50,980) | \$ 276,086 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 101.1% | 93.7% |
| Covered-Employee Payroll (Actual) ⁴ | \$ 710,581 | \$ 695,000 |
| Net Pension Liability as a Percentage of Covered-Employee Payroll | (7.2%) | 39.7% |

¹The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2012 for GASB Statement No. 67 purposes.

²Includes refunds of employee contributions.

³Includes net interfund transfers.

⁴2013 covered-employee payroll was adjusted to reflect actual contribution rates.

Required Supplementary Information, continued

Schedules of Changes in Net Pension Liability and Net Pension Liability¹ Judges' Retirement Fund Fiscal Year Ended June 30

(dollars in thousands)

| | 2014 | 2013 |
|---|-------------------|-------------------|
| Total Pension Liability | | |
| Total Pension Liability – Beginning of Year | \$ 453,110 | \$ 437,854 |
| Service Cost | 15,302 | 16,084 |
| Interest Cost | 30,992 | 30,047 |
| Experience (Gains) / Losses | (16,026) | (13,603) |
| Assumption Changes | - | 186 |
| Plan Amendments | - | - |
| Benefit Payments ² | (18,527) | (17,579) |
| Net Member Reassignment ³ | 4 | 121 |
| Other | - | - |
| Net Change in Total Pension Liability | 11,745 | 15,256 |
| Total Pension Liability – End of Year | \$ 464,855 | \$ 453,110 |
| Plan Fiduciary Net Position | | |
| Plan Fiduciary Net Position – Beginning of Year | \$ 375,752 | \$ 262,326 |
| Employer Contributions | 20,895 | 111,419 |
| Member Contributions | 2,856 | 2,631 |
| Net Investment Income | 51,890 | 16,955 |
| Benefit Payments ² | (18,527) | (17,579) |
| Net Member Reassignment ³ | 4 | 121 |
| Administrative and Project Expenses | (146) | (126) |
| Other | 6 | 5 |
| Net Change in Plan Fiduciary Net Position | 56,978 | 113,426 |
| Plan Fiduciary Net Position – End of Year | \$ 432,730 | \$ 375,752 |
| Net Pension Liability | | |
| Total Pension Liability | \$ 464,855 | \$ 453,110 |
| Plan Fiduciary Net Position | 432,730 | 375,752 |
| Plan Net Pension Liability | \$ 32,125 | \$ 77,358 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 93.1% | 82.9% |
| Covered-Employee Payroll (Actual) ⁴ | \$ 46,041 | \$ 47,595 |
| Net Pension Liability as a Percentage of Covered-Employee Payroll | 69.8% | 162.5% |

¹The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2012 for GASB Statement No. 67 purposes.

²Includes refunds of employee contributions.

³Includes net interfund transfers.

⁴2013 represents anticipated covered-employee payroll.

Required Supplementary Information, continued

Schedules of Changes in Net Pension Liability and Net Pension Liability¹ State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan Fiscal Year Ended June 30

(dollars in thousands)

| | 2014 | 2013 |
|---|-------------------|-------------------|
| Total Pension Liability | | |
| Total Pension Liability – Beginning of Year | \$ 118,097 | \$ 113,282 |
| Service Cost | 3,841 | 3,811 |
| Interest Cost | 8,031 | 7,740 |
| Experience (Gains) / Losses | (430) | (1,845) |
| Assumption Changes | - | (40) |
| Plan Amendments | - | - |
| Benefit Payments ² | (5,938) | (4,836) |
| Net Member Reassignment ³ | - | (15) |
| Other | - | - |
| Net Change in Total Pension Liability | 5,504 | 4,815 |
| Total Pension Liability – End of Year | \$ 123,601 | \$ 118,097 |
| Plan Fiduciary Net Position | | |
| Plan Fiduciary Net Position – Beginning of Year | \$ 97,019 | \$ 76,543 |
| Employer Contributions | 5,359 | 19,740 |
| Member Contributions | 1,019 | 1,006 |
| Net Investment Income | 13,339 | 4,702 |
| Benefit Payments ² | (5,938) | (4,836) |
| Net Member Reassignment ³ | - | (15) |
| Administrative and Project Expenses | (141) | (121) |
| Other | - | - |
| Net Change in Plan Fiduciary Net Position | 13,638 | 20,476 |
| Plan Fiduciary Net Position – End of Year | \$ 110,657 | \$ 97,019 |
| Net Pension Liability | | |
| Total Pension Liability | \$ 123,601 | \$ 118,097 |
| Plan Fiduciary Net Position | 110,657 | 97,019 |
| Plan Net Pension Liability | \$ 12,944 | \$ 21,078 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 89.5% | 82.2% |
| Covered-Employee Payroll (Actual) ⁴ | \$ 25,825 | \$ 24,675 |
| Net Pension Liability as a Percentage of Covered-Employee Payroll | 50.1% | 85.4% |

¹The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2012 for GASB Statement No. 67 purposes.

²Includes refunds of employee contributions.

³Includes net interfund transfers.

⁴2013 covered-employee payroll was adjusted to reflect actual contribution rates.

Required Supplementary Information, continued

Schedules of Changes in Net Pension Liability and Net Pension Liability¹ Prosecuting Attorneys' Retirement Fund Fiscal Year Ended June 30

(dollars in thousands)

| | 2014 | 2013 |
|---|------------------|------------------|
| Total Pension Liability | | |
| Total Pension Liability – Beginning of Year | \$ 61,940 | \$ 56,080 |
| Service Cost | 1,587 | 1,568 |
| Interest Cost | 4,207 | 3,816 |
| Experience (Gains) / Losses | - | 1,474 |
| Assumption Changes | - | (109) |
| Plan Amendments | - | 1,346 |
| Benefit Payments ² | (2,398) | (2,235) |
| Net Member Reassignment ³ | - | - |
| Other | - | - |
| Net Change in Total Pension Liability | 3,396 | 5,860 |
| Total Pension Liability – End of Year | \$ 65,336 | \$ 61,940 |
| Plan Fiduciary Net Position | | |
| Plan Fiduciary Net Position – Beginning of Year | \$ 47,920 | \$ 27,689 |
| Employer Contributions | 1,174 | 19,443 |
| Member Contributions | 1,334 | 1,271 |
| Net Investment Income | 6,581 | 1,897 |
| Benefit Payments ² | (2,398) | (2,235) |
| Net Member Reassignment ³ | - | - |
| Administrative and Project Expenses | (108) | (145) |
| Other | 4 | - |
| Net Change in Plan Fiduciary Net Position | 6,587 | 20,231 |
| Plan Fiduciary Net Position – End of Year | \$ 54,507 | \$ 47,920 |
| Net Pension Liability | | |
| Total Pension Liability | \$ 65,336 | \$ 61,940 |
| Plan Fiduciary Net Position | 54,507 | 47,920 |
| Plan Net Pension Liability | \$ 10,829 | \$ 14,020 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 83.4% | 77.4% |
| Covered-Employee Payroll (Actual) ⁴ | \$ 20,608 | \$ 18,805 |
| Net Pension Liability as a Percentage of Covered-Employee Payroll | 52.5% | 74.6% |

¹The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2012 for GASB Statement No. 67 purposes.

²Includes refunds of employee contributions.

³Includes net interfund transfers.

⁴2013 represents anticipated covered-employee payroll.

Required Supplementary Information, continued

Schedules of Changes in Net Pension Liability and Net Pension Liability¹ Legislators' Defined Benefit Plan Fiscal Year Ended June 30

(dollars in thousands)

| | 2014 | 2013 |
|--|-----------------|-----------------|
| Total Pension Liability | | |
| Total Pension Liability – Beginning of Year | \$ 4,285 | \$ 4,497 |
| Service Cost | 3 | 2 |
| Interest Cost | 277 | 291 |
| Experience (Gains) / Losses | (36) | (140) |
| Assumption Changes | - | - |
| Plan Amendments | - | - |
| Benefit Payments ² | (363) | (365) |
| Net Member Reassignment ³ | - | - |
| Other | - | - |
| Net Change in Total Pension Liability | (119) | (212) |
| Total Pension Liability – End of Year | \$ 4,166 | \$ 4,285 |
| Plan Fiduciary Net Position | | |
| Plan Fiduciary Net Position – Beginning of Year | \$ 3,337 | \$ 3,385 |
| Employer Contributions | 138 | 150 |
| Member Contributions | - | - |
| Net Investment Income | 439 | 201 |
| Benefit Payments ² | (363) | (365) |
| Net Member Reassignment ³ | - | - |
| Administrative and Project Expenses | (62) | (34) |
| Other | - | - |
| Net Change in Plan Fiduciary Net Position | 152 | (48) |
| Plan Fiduciary Net Position – End of Year | \$ 3,489 | \$ 3,337 |
| Net Pension Liability | | |
| Total Pension Liability | \$ 4,166 | \$ 4,285 |
| Plan Fiduciary Net Position | 3,489 | 3,337 |
| Plan Net Pension Liability | \$ 677 | \$ 948 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 83.7% | 77.9% |
| Covered-Employee Payroll (Actual) ⁴ | N/A | N/A |
| Net Pension Liability as a Percentage of Covered-Employee Payroll⁴ | N/A | N/A |

¹The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2012 for GASB Statement No. 67 purposes.

²Includes refunds of employee contributions.

³Includes net interfund transfers.

⁴Is a closed plan with no payroll.

Required Supplementary Information, continued

Schedule of Contributions Fiscal Year Ended June 30

(dollars in thousands)

| Fiscal Year End | Actuarially Determined Contribution (ADC) | Contributions in Relation to ADC ¹ | Contribution Deficiency (Excess) | Contributions as a Percentage of ADC | Covered-Employee Payroll | Contributions as a Percentage of Covered-Employee Payroll |
|--|---|---|----------------------------------|--------------------------------------|--------------------------|---|
| PUBLIC EMPLOYEES' RETIREMENT FUND | | | | | | |
| 6/30/2005 ² | \$ 222,357 | \$ 206,323 | \$ 16,034 | 92.8% | \$ 4,700,000 | 4.4% |
| 6/30/2006 ² | 230,966 | 230,357 | 609 | 99.7% | 4,600,000 | 5.0% |
| 6/30/2007 ² | 259,768 | 260,150 | (382) | 100.1% | 4,325,000 | 6.0% |
| 6/30/2008 ² | 303,700 | 303,877 | (177) | 100.1% | 4,550,000 | 6.7% |
| 6/30/2009 ² | 326,170 | 323,151 | 3,019 | 99.1% | 4,850,000 | 6.7% |
| 6/30/2010 ² | 329,731 | 331,090 | (1,359) | 100.4% | 4,800,000 | 6.9% |
| 6/30/2011 ² | 351,000 | 342,779 | 8,221 | 97.7% | 4,500,000 | 7.6% |
| 6/30/2012 ² | 449,388 | 397,843 | 51,545 | 88.5% | 4,550,000 | 8.7% |
| 6/30/2013 ² | 464,047 | 455,658 | 8,389 | 98.2% | 4,700,000 | 9.7% |
| 6/30/2014 ^{2,3} | 528,562 | 519,576 | 8,986 | 98.3% | 4,896,635 | 10.6% |
| TEACHERS' RETIREMENT FUND PRE-1996 ACCOUNT (TRF PRE-1996) | | | | | | |
| 6/30/2005 ⁴ | \$ 516,267 | \$ 394,387 | \$ 121,880 | 76.4% | \$ 2,305,725 | 17.1% |
| 6/30/2006 ⁴ | 556,460 | 601,259 | (44,799) | 108.1% | 2,237,380 | 26.9% |
| 6/30/2007 ⁴ | 602,904 | 636,039 | (33,135) | 105.5% | 2,376,390 | 26.8% |
| 6/30/2008 ⁴ | 678,050 | 675,682 | 2,368 | 99.7% | 2,295,816 | 29.4% |
| 6/30/2009 ⁴ | 700,307 | 706,366 | (6,059) | 100.9% | 2,030,484 | 34.8% |
| 6/30/2010 ⁴ | 850,493 | 731,149 | 119,344 | 86.0% | 1,865,102 | 39.2% |
| 6/30/2011 ⁴ | 894,507 | 748,978 | 145,529 | 83.7% | 1,762,750 | 42.5% |
| 6/30/2012 ⁴ | 866,207 | 764,423 | 101,784 | 88.2% | 1,637,066 | 46.7% |
| 6/30/2013 ^{4,5} | 873,751 | 1,013,080 | (139,329) | 115.9% | 1,383,428 | 73.2% |
| 6/30/2014 ⁴ | 879,072 | 831,942 | 47,130 | 94.6% | 1,262,828 | 65.9% |
| TEACHERS' RETIREMENT FUND 1996 ACCOUNT | | | | | | |
| 6/30/2005 ² | \$ 109,843 | \$ 90,392 | \$ 19,451 | 82.3% | \$ 1,325,000 | 6.8% |
| 6/30/2006 ² | 119,558 | 100,081 | 19,477 | 83.7% | 1,425,000 | 7.0% |
| 6/30/2007 ² | 150,415 | 117,001 | 33,414 | 77.8% | 1,675,000 | 7.0% |
| 6/30/2008 ² | 130,305 | 132,446 | (2,141) | 101.6% | 1,825,000 | 7.3% |
| 6/30/2009 ² | 125,330 | 147,425 | (22,095) | 117.6% | 2,075,000 | 7.1% |
| 6/30/2010 ² | 99,000 | 154,491 | (55,491) | 156.1% | 2,200,000 | 7.0% |
| 6/30/2011 ² | 135,057 | 166,633 | (31,576) | 123.4% | 2,225,000 | 7.5% |
| 6/30/2012 ² | 154,800 | 181,067 | (26,267) | 117.0% | 2,400,000 | 7.5% |
| 6/30/2013 ² | 167,311 | 180,714 | (13,403) | 108.0% | 2,442,496 | 7.4% |
| 6/30/2014 ² | 177,711 | 194,751 | (17,040) | 109.6% | 2,598,115 | 7.5% |
| 1977 POLICE OFFICERS' AND FIREFIGHTERS' PENSION AND DISABILITY FUND | | | | | | |
| 12/31/2005 ² | \$ 102,243 | \$ 108,766 | \$ (6,523) | 106.4% | \$ 519,000 | 21.0% |
| 12/31/2006 ² | 134,354 | 143,272 | (8,918) | 106.6% | 682,000 | 21.0% |
| 12/31/2007 ² | 114,075 | 122,712 | (8,637) | 107.6% | 585,000 | 21.0% |
| 12/31/2008 ² | 123,825 | 133,196 | (9,371) | 107.6% | 635,000 | 21.0% |
| 6/30/2009 ^{2,6} | 64,285 | 64,285 | - | 100.0% | 330,000 | 19.5% |
| 6/30/2010 ² | 94,135 | 130,775 | (36,640) | 138.9% | 670,000 | 19.5% |
| 6/30/2011 ² | 117,820 | 133,726 | (15,906) | 113.5% | 687,000 | 19.5% |
| 6/30/2012 ² | 132,549 | 135,605 | (3,056) | 102.3% | 690,000 | 19.7% |
| 6/30/2013 ² | 112,590 | 137,111 | (24,521) | 121.8% | 695,000 | 19.7% |
| 6/30/2014 ² | 103,425 | 140,119 | (36,694) | 135.5% | 710,581 | 19.7% |

¹Contributions are from employers except for the Teachers' Retirement Fund TRF Pre-1996 Account, which are predominately from a nonemployer contributing entity

²Actuarially determined contribution and covered-employee payroll were adjusted to reflect actual employee payroll

³Contributions exclude specific financed liabilities of \$6,514 thousand

⁴Covered-employee payroll represents anticipated covered-employee payroll except for 6/30/2014, which represents actual employee payroll

⁵In FY2013, the State of Indiana appropriated additional monies to: TRF Pre-1996 - \$206,796 thousand, JRS - \$90,187 thousand, EG&C Plan - \$14,619 thousand, and PARF - \$17,363 thousand

⁶Represents only a half year of activity

Required Supplementary Information, continued

Schedule of Contributions Fiscal Year Ended June 30

(dollars in thousands)

| Fiscal Year End | Actuarially Determined Contribution (ADC) | Contributions in Relation to ADC ¹ | Contribution Deficiency (Excess) | Contributions as a Percentage of ADC | Covered-Employee Payroll | Contributions as a Percentage of Covered-Employee Payroll |
|--|---|---|----------------------------------|--------------------------------------|--------------------------|---|
| JUDGES' RETIREMENT SYSTEM (JRS) | | | | | | |
| 6/30/2005 ⁴ | \$ 10,064 | \$ 13,540 | \$ (3,476) | 134.5% | \$ 32,231 | 42.0% |
| 6/30/2006 ⁴ | 14,932 | 13,537 | 1,395 | 90.7% | 34,065 | 39.7% |
| 6/30/2007 ⁴ | 12,249 | 14,662 | (2,413) | 119.7% | 29,712 | 49.3% |
| 6/30/2008 ⁴ | 10,028 | 15,920 | (5,892) | 158.8% | 33,729 | 47.2% |
| 6/30/2009 ⁴ | 16,131 | 20,861 | (4,730) | 129.3% | 36,196 | 57.6% |
| 6/30/2010 ⁴ | 16,077 | 18,631 | (2,554) | 115.9% | 36,722 | 50.7% |
| 6/30/2011 ⁴ | 18,910 | 19,200 | (290) | 101.5% | 45,764 | 42.0% |
| 6/30/2012 ⁴ | 19,664 | 18,896 | 768 | 96.1% | 45,138 | 41.9% |
| 6/30/2013 ^{4,5} | 25,458 | 111,419 | (85,961) | 437.7% | 47,595 | 234.1% |
| 6/30/2014 ⁴ | 27,648 | 20,895 | 6,753 | 75.6% | 46,041 | 45.4% |
| STATE EXCISE POLICE, GAMING AGENT, GAMING CONTROL OFFICER, AND CONSERVATION ENFORCEMENT OFFICERS' RETIREMENT PLAN (EG&C PLAN) | | | | | | |
| 6/30/2005 ² | \$ 2,471 | \$ 2,164 | \$ 307 | 87.6% | \$ 13,500 | 16.0% |
| 6/30/2006 ² | 3,198 | 2,498 | 700 | 78.1% | 15,600 | 16.0% |
| 6/30/2007 ² | 4,410 | 3,359 | 1,051 | 76.2% | 21,000 | 16.0% |
| 6/30/2008 ² | 4,918 | 4,854 | 64 | 98.7% | 23,700 | 20.5% |
| 6/30/2009 ² | 5,294 | 5,294 | - | 100.0% | 25,500 | 20.8% |
| 6/30/2010 ² | 4,200 | 5,256 | (1,056) | 125.1% | 25,300 | 20.8% |
| 6/30/2011 ² | 4,112 | 5,197 | (1,085) | 126.4% | 25,000 | 20.8% |
| 6/30/2012 ² | 4,556 | 5,054 | (498) | 110.9% | 24,300 | 20.8% |
| 6/30/2013 ^{2,5} | 4,794 | 19,740 | (14,946) | 411.8% | 24,675 | 80.0% |
| 6/30/2014 ² | 5,341 | 5,359 | (18) | 100.3% | 25,825 | 20.8% |
| PROSECUTING ATTORNEYS' RETIREMENT FUND (PARF) | | | | | | |
| 6/30/2005 ⁴ | \$ 889 | \$ 961 | \$ (72) | 108.1% | \$ 16,659 | 5.8% |
| 6/30/2006 ⁴ | 952 | 170 | 782 | 17.9% | 19,225 | 0.9% |
| 6/30/2007 ⁴ | 1,044 | 190 | 854 | 18.2% | 18,092 | 1.1% |
| 6/30/2008 ⁴ | 1,040 | 170 | 870 | 16.3% | 20,617 | 0.8% |
| 6/30/2009 ⁴ | 1,340 | 170 | 1,170 | 12.7% | 20,782 | 0.8% |
| 6/30/2010 ⁴ | 1,663 | 170 | 1,493 | 10.2% | 21,016 | 0.8% |
| 6/30/2011 ⁴ | 1,960 | 170 | 1,790 | 8.7% | 18,082 | 0.9% |
| 6/30/2012 ⁴ | 2,037 | 1,839 | 198 | 90.3% | 21,705 | 8.5% |
| 6/30/2013 ^{4,5} | 2,542 | 19,443 | (16,901) | 764.9% | 18,805 | 103.4% |
| 6/30/2014 ⁴ | 2,345 | 1,174 | 1,171 | 50.1% | 20,608 | 5.7% |
| LEGISLATORS' RETIREMENT SYSTEM – DEFINED BENEFIT PLAN⁷ | | | | | | |
| 6/30/05 | \$ 89 | \$ 206 | \$ (117) | 231.5% | N/A | N/A |
| 6/30/06 | 91 | 100 | (9) | 109.9% | N/A | N/A |
| 6/30/07 | 120 | 100 | 20 | 83.3% | N/A | N/A |
| 6/30/08 | 66 | 100 | (34) | 151.5% | N/A | N/A |
| 6/30/09 | 45 | 100 | (55) | 222.2% | N/A | N/A |
| 6/30/10 | 63 | - | 63 | 0.0% | N/A | N/A |
| 6/30/11 | 113 | - | 113 | 0.0% | N/A | N/A |
| 6/30/12 | 113 | 112 | 1 | 99.1% | N/A | N/A |
| 6/30/13 | 140 | 150 | (10) | 107.1% | N/A | N/A |
| 6/30/14 | 138 | 138 | - | 100.0% | N/A | N/A |

¹Contributions are from employers except for the Teachers' Retirement Fund TRF Pre-1996 Account, which are predominately from a nonemployer contributing entity

²Actuarially determined contribution and covered-employee payroll were adjusted to reflect actual employee payroll

³Covered-employee payroll represents anticipated covered-employee payroll except for 6/30/2014, which represents actual employee payroll

⁴In FY2013, the State of Indiana appropriated additional monies to: TRF Pre-1996 – \$206,796 thousand, JRS – \$90,187 thousand, EG&C Plan – \$14,619 thousand, and PARF – \$17,363 thousand

⁵Is a closed plan with no payroll

Schedule of Investment Returns¹ Annual Money-Weighted Rate of Return, Net of Investment Expense

| (dollars in thousands) | Fiscal Year Ended June 30 | |
|---|---------------------------|--------------|
| | 2014 | 2013 |
| Pension Trust Funds ² | | |
| Public Employees' Retirement Fund | 12.33% | 5.79% |
| Teachers' Retirement Fund Pre-1996 Account ³ | 12.71% | 5.11% |
| Teachers' Retirement Fund 1996 Account ³ | 12.71% | 5.11% |
| 1977 Police Officers' and Firefighters' Pension and Disability Fund | 13.70% | 5.85% |
| Judges' Retirement System | 13.69% | 5.24% |
| State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan | 13.69% | 5.48% |
| Prosecuting Attorneys' Retirement Fund | 13.70% | 4.84% |
| Legislators' Defined Benefit Plan | 13.65% | 6.16% |
| Total INPRS⁴ | 12.69% | 5.57% |

¹The effort and cost to re-create financial statement information for 10 years was not practical. Information was prepared prospectively from June 30, 2012 for GASB Statement No. 67 purposes.

²Excludes the Legislators' Defined Contribution Plan.

³The Teachers' Retirement Fund Accounts are combined for investment purposes.

⁴Rate of return also includes Legislators' Defined Contribution Plan, State Employees' Death Benefit Fund, Public Safety Officers' Special Death Benefit Fund and Pension Relief Fund.

Schedule of Notes to Required Supplementary Information Fiscal Year Ended June 30

Schedules of Changes In Net Pension Liability and Net Pension Liability

Plan Amendments

In 2014, HB 1075 impacted the Public Employees' Retirement Fund, the Teachers' Retirement Fund Pre-1996 Account, and the Teachers' Retirement Fund 1996 Account by reducing the Annuity Savings Account (ASA) interest crediting rate on annuities from 7.5% to 5.75% effective October 1, 2014. Effective October 1, 2015 the rate becomes the greater of 4.5% or market rate. On January 1, 2017, the ASA annuities are allowed to be outsourced to a third party provider.

In 2013, HB 1057 changed the benefits in the Prosecuting Attorneys' Retirement Fund to be comparable to the Judges' Retirement Fund.

Assumption Changes

In 2013, the interest crediting rate on member contributions was changed to a consistent interest rate of 3.5% for the 1977 Police Officers' and Firefighters' Pension and Disability Fund (formerly 5.5%), the Judges' Retirement Fund (formerly 0.0%), the State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Fund (formerly 6.75%), and the Prosecuting Attorneys' Retirement Fund (formerly 5.5%).

Schedule of Contributions

Methods and Assumptions Used in Calculating Actuarially Determined Contributions

The actuarially determined contribution rates in the schedule of contributions are calculated as of June 30 and the newly calculated contribution rates will become effective either July 1, 2015 or January 1, 2016. The following actuarial methods and assumptions were used to determine the contribution rates:

| Description | PERF | TRF Pre-1996 Account | TRF 1996 Account | 1977 Fund | JRS | EG&C Plan | PARF | LEDB Plan |
|--|--|----------------------|------------------|-----------|------|-----------|------|-------------------------|
| Actuarial Cost Method | Entry Age Normal (Level Percent of Payroll) | | | | | | | Traditional Unit Credit |
| Actuarial Amortization Method for Unfunded Liability | Level Dollar | | | | | | | |
| Actuarial Amortization Period for Unfunded Liability | 30 Years, Closed | | | | | | | |
| Asset Valuation Method | 4-year smoothing of gains and losses on the Market Value of assets subject to a 20% corridor | | | | | | | |
| Investment Rate of Return | 6.75%, net of investment and administrative expenses, including inflation | | | | | | | |
| Future Salary Increases, including Inflation | 3.25% - 4.5% | 3.0% - 12.5% | | 3.25% | 4.0% | 3.25% | 4.0% | 3.0% |
| Inflation | 3.0% | | | | | | | |

Trends

Contributions in fiscal year 2014 are lower than in fiscal year 2013 for certain pension trust funds due to 2012 HB 1376, which appropriated additional monies for the following pension trust funds: Teachers' Retirement Fund Pre-1996 Account – \$206,796 thousand, Judges' Retirement Fund – \$90,187 thousand, State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan – \$14,619 thousand, and the Prosecuting Attorneys' Retirement Fund – \$17,363 thousand.

Schedule of Pension Relief Changes in Assets and Liabilities

(dollars in thousands)

| | Balance June 30, 2013 | Additions | Deductions | Balance June 30, 2014 |
|--------------------------|--------------------------|-------------------|-------------------|--------------------------|
| Assets | | | | |
| Cash | \$ 1,054 | \$ 57,441 | \$ 57,252 | \$ 1,243 |
| Short Term Investments | 35,587 | 881,435 | 901,089 | 15,933 |
| Total Assets | \$ 36,641 | \$ 938,876 | \$ 958,341 | \$ 17,176 |
| Liabilities | | | | |
| Accounts Payable | \$ 9 | \$ 222,222 | \$ 222,227 | \$ 4 |
| Due to Other Funds | 15 | 17 | 27 | 5 |
| Due to Other Governments | 36,617 | 716,637 | 736,087 | 17,167 |
| Total Liabilities | \$ 36,641 | \$ 938,876 | \$ 958,341 | \$ 17,176 |

Schedule of Administrative and Project Expenses

(dollars in thousands)

| | Fiscal Year Ended June 30 | |
|--|---------------------------|------------------|
| | 2014 | 2013 |
| <u>Personnel Services:</u> | | |
| Salaries and Wages | \$ 10,083 | \$ 9,518 |
| Employee Benefits | 4,403 | 4,061 |
| Temporary Services | 4,356 | 5,950 |
| Total Personnel Services | 18,842 | 19,529 |
| <u>Contractual and Professional Services:</u> | | |
| Benefit Payment Processing Fees | 2,698 | 2,555 |
| Consulting Services | 965 | 817 |
| Actuarial Services | 821 | 759 |
| Legal Services | 217 | 102 |
| Total Contractual and Professional Services | 4,701 | 4,233 |
| <u>Information Technology Services:</u> | | |
| Data Processing | 2,537 | 1,427 |
| Software and Licenses | 1,699 | 1,473 |
| Other Computer Services | 700 | 2 |
| Total Information Technology Services | 4,936 | 2,902 |
| <u>Communications:</u> | | |
| Postage | 707 | 829 |
| Telephone | 343 | 369 |
| Printing | 184 | 281 |
| E-communications | 96 | 120 |
| Total Communications | 1,330 | 1,599 |
| <u>Miscellaneous:</u> | | |
| Depreciation and Amortization | 3,195 | 2,370 |
| Office Rent and Expenses | 992 | 1,007 |
| Memberships and Training | 135 | 148 |
| Travel | 87 | 61 |
| Equipment Rental | 72 | 178 |
| Other Administrative Expenses | 296 | 166 |
| Total Miscellaneous | 4,777 | 3,930 |
| Subtotal Administrative Expenses | \$ 34,586 | \$ 32,193 |
| Less Amount Allocated to Pension Relief Fund | (42) | (44) |
| Total Administrative Expenses | \$ 34,544 | \$ 32,149 |
| Subtotal Project Expenses | \$ 8,856 | \$ 13,728 |
| Less Amount Allocated to Pension Relief Fund | (1) | (13) |
| Total Project Expenses | \$ 8,855 | \$ 13,715 |
| Total Administrative and Project Expenses | \$ 43,399 | \$ 45,864 |

Schedule of Administrative Contractual and Professional Services Expenses

(dollars in thousands)

| Vendor Name | Fiscal Year Ended June 30 | | Nature of Services |
|--|---------------------------|-------------------|--|
| | 2014 | 2013 ¹ | |
| Xerox | \$ 2,777 | \$ 2,576 | Benefit Payment Services |
| PricewaterhouseCoopers LLP | 684 | 651 | Actuarial Services |
| Indiana State Board of Accounts | 233 | 193 | Audit Services |
| Callan | 140 | - | ASA Annuity/Xerox Renewal Consulting |
| Nyhart, Inc. | 137 | 108 | Actuarial Services |
| Ice Miller LLP | 136 | 67 | Legal Services |
| Orion | 112 | - | Quality Management |
| AIIRvan Consulting LLC | 75 | 65 | Research Services |
| Gartner, Inc. | 61 | 70 | IT Research |
| Omkar Markand, M.D. | 55 | 58 | Medical Consulting |
| Automatic Data Processing, Inc. | 42 | 33 | Payroll Processing Services |
| Ernst & Young LLP | 41 | 34 | Management Consulting |
| CEM Benchmarking, Inc. | 40 | 40 | Benchmarking Services |
| Loyalty Research Center | 34 | - | Research Services |
| Gonzalez Saggio Harlan | 30 | 3 | Legal Services |
| United States Treasury | 28 | - | Cycle C Filings |
| ERP Control Specialists, LLC | 21 | 29 | Internal Audit Software |
| Krieg DeVault LLP | 13 | 12 | Legal Services |
| Fleming Stage | 12 | 4 | Legal Services |
| Protiviti Inc. | 11 | 219 | Enterprise Risk Management/Vendor Management |
| Briljant | 10 | 14 | Training Services |
| Flashpoint | - | 16 | Management Consulting |
| Segal | - | 15 | Management Consulting |
| Other Contractual and Professional Services | 9 | 26 | Other Services |
| Total Administrative Contractual and Professional Services Expenses | \$ 4,701 | \$ 4,233 | |

Fees paid to investment professionals can be found in the Investment Section.

¹Schedule of Administrative Contractual and Professional Services Expenses as of June 30, 2013, has been restated to provide greater transparency and is reflected as comparable to INPRS' June 30, 2014, reporting classifications.

Schedule of Project Expenses

| | Fiscal Year Ended June 30 | |
|--|---------------------------|------------------|
| | 2014 | 2013 |
| <i>(dollars in thousands)</i> | | |
| <u>Personnel Services:</u> | | |
| Temporary Services | \$ 4,393 | \$ 4,444 |
| Salaries and Wages | 624 | 371 |
| Employee Benefits | 264 | 128 |
| Total Personnel Services | 5,281 | 4,943 |
| <u>Contractual and Professional Services:</u> | | |
| Consulting Services | 3,084 | 7,244 |
| Total Contractual and Professional Services | 3,084 | 7,244 |
| <u>Information Technology Services:</u> | | |
| Data Processing | 484 | 1,419 |
| Software and Licenses | (1) | 172 |
| Total Information Technology Services | 483 | 1,591 |
| Communications and Miscellaneous | 8 | (50) |
| Subtotal Project Expenses | \$ 8,856 | \$ 13,728 |
| Less Amount Allocated to Pension Relief Fund | (1) | (13) |
| Total Project Expenses | \$ 8,855 | \$ 13,715 |

Schedule of Project Contractual and Professional Services Expenses

| (dollars in thousands) | | Fiscal Year Ended June 30 | | |
|---|-----------------|---------------------------|--|--|
| Vendor Name | 2014 | 2013 | Nature of Services | |
| CherryRoad Technologies Inc. | \$ 1,506 | \$ 3,389 | Strategic Assessment and IT Consulting | |
| Oracle America, Inc. | 500 | 1,941 | Strategic Assessment and IT Consulting | |
| IBM Corporation | 401 | 159 | Software Licenses | |
| Briljent | 399 | 1,051 | Training Documentation | |
| KPMG LLP | 147 | 121 | Strategic Assessment and IT Consulting | |
| Xerox | 131 | 532 | Strategic Assessment and IT Consulting | |
| Guidesoft | - | 51 | Training Documentation | |
| Total Project Contractual and Professional Services Expenses | \$ 3,084 | \$ 7,244 | | |

Fees paid to investment professionals can be found in the Investment Section.

Schedule of Investment Expenses¹

(dollars in thousands)

| | Fiscal Year Ended June 30 | |
|--|---------------------------|-------------------|
| | 2014 | 2013 |
| Direct Investment Expenses | | |
| <u>Investment Consultants:</u> | | |
| Strategic Investment Solutions | \$ 900 | \$ 1,000 |
| Aksia | 500 | 500 |
| ORG Portfolio Management LLC | 330 | 322 |
| Capital Cities | 85 | 105 |
| Institutional Shareholder Services | 50 | 7 |
| Other | 28 | 13 |
| CitiGroup | 25 | - |
| Xerox | 21 | 69 |
| Total Investment Consultants | 1,939 | 2,016 |
| <u>Investment Custodian:</u> | | |
| BNY Mellon | 515 | 513 |
| Total Investment Custodian | 515 | 513 |
| Broker Commissions | 3,463 | 3,652 |
| Investment Recordkeeper Fees | 5,541 | 5,705 |
| Investment Staff Expenses | 2,305 | 1,817 |
| Investment Administrative Expenses | 888 | 1,242 |
| Total Direct Investment Expenses | 14,651 | 14,945 |
| Investment Management Fees | 172,835 | 127,093 |
| Subtotal Investment Expenses | \$ 187,486 | \$ 142,038 |
| Less Amount Allocated to Pension Relief Fund | (6) | (6) |
| Total Project Expenses | \$ 187,480 | \$ 142,032 |

¹Schedule of Investment Expenses as of June 30, 2013, has been restated to provide greater transparency and is reflected as comparable to INPRS' June 30, 2014, reporting classifications.

